

# 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 2014

### Investment Objective

The Fund aims to achieve good returns, mainly through capital growth.

### Investment Policy

To invest in any economic sector of the UK, either directly or indirectly. Investment will be mainly in shares of smaller companies. We will decide what constitutes smaller companies.

### 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.

Typically lower rewards, lower risk				Typically higher rewards, higher risk		
1	2	3	4	5	6	7

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. 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

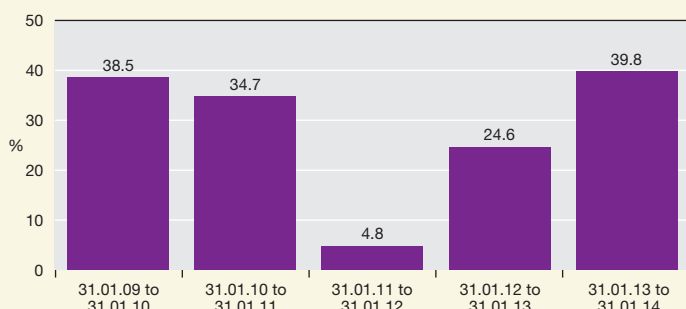
For the year to 31st January 2014 the return on A Net Accumulation Shares was 39.4%<sup>2</sup> which compared to the return on the FTSE Small Cap (ex Investment Trust) Index of 40.3%<sup>3</sup>. We believe that shorter-term performance measurements are of limited relevance in assessing investment ability and would suggest that five years is a more sensible time frame over which to judge performance. Performance over the longer term remains good with the Fund having delivered 242.0%<sup>2</sup> over five years compared to 232.0%<sup>3</sup> for the index.

During the last year we have made a number of changes to the portfolio. Firstly we have sold or reduced some of our more successful investments where we believe further growth potential is now more limited. Examples of these include the share platform Hargreaves Lansdown and the online supermarket Ocado. The Fund aims to provide exposure to young and exciting businesses that offer significant upside and selling these more mature investments frees up resources for new investments. In this context we have purchased holdings in a number of companies that we believe have significant opportunities ahead of them. Two examples of this are the specialty pharmaceuticals companies Clinigen and Vectura. Clinigen provides support to pharmaceutical companies conducting trials of new products and markets a portfolio of niche drugs which have substantial growth opportunities. Vectura is a specialist in respiratory products and has a number of products which are now coming to market that should transform the fortunes of the company. We have also purchased a holding in the business services company Utilitywise, which helps small and medium sized businesses to lower utility bills by broking deals with suppliers and also reducing consumption through audits of efficiency and the deployment of technology to identify unnecessary usage. The high cost of energy, and the need for businesses to control costs, provides significant support for Utilitywise's products.

After a period of many years it is notable that the outlook for the UK economy has improved of late. Whilst this will be helpful for some of the holdings in the portfolio, for many success or failure will depend more on their own actions and their competitive position within their markets. Many of these companies are bringing change through innovation and can therefore gain revenues rapidly whatever the economic backdrop. A good example of this is Xaar, which has developed digital print heads which do not clog up over time, opening up industrial applications for the first time. They have been very successful in the ceramic tile market and are now seeking to move into a number of similar areas. The revenue growth opportunities for companies like this that can disrupt the current status quo can be very significant indeed. We continue to believe that the Fund is invested in a broad range of exciting companies that are likely to grow at an above average rate and that this should lead to strong performance for the Fund.

Andrew Strathee, 13th 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. 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 Accumulation	573.2p	411.1p
B Net Income	479.4p	344.8p
B Net Accumulation	644.6p	458.4p
C Net Income	480.6p	345.3p
C Net Accumulation	704.9p	498.3p

### 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 Accumulation	2.20p	3.36p
B Net Income	5.32p	5.44p
B Net Accumulation	7.14p	7.21p
C Net Income	7.93p	7.52p
C Net Accumulation	11.44p	10.61p

### 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 Accumulation	1.49% <sup>6</sup>	1.50%
B Net Income	0.67%	0.69%
B Net Accumulation	0.65%	0.66%
C Net Income	0.05%	0.05%
C Net Accumulation	0.05%	0.05%

### 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 Accumulation	589.3p	565.4p	569.8p	404.6p
B Net Income	498.2p	478.1p	481.5p	344.5p
B Net Accumulation	662.5p	635.8p	640.3p	451.0p
C Net Income	502.0p	481.8p	485.0p	346.9p
C Net Accumulation	724.4p	695.3p	699.8p	490.0p

<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 values, 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.

<sup>6</sup>The ACD's annual fee is calculated on a monthly basis. This can lead to distortions in the calculated ongoing charges figure when a share class is expanding or contracting. The ACD considers 1.55% to be a more indicative rate for the ongoing charges figure for Class A Net Accumulation Shares. You should be aware that past performance is not a guide to future performance.

## Major Holdings

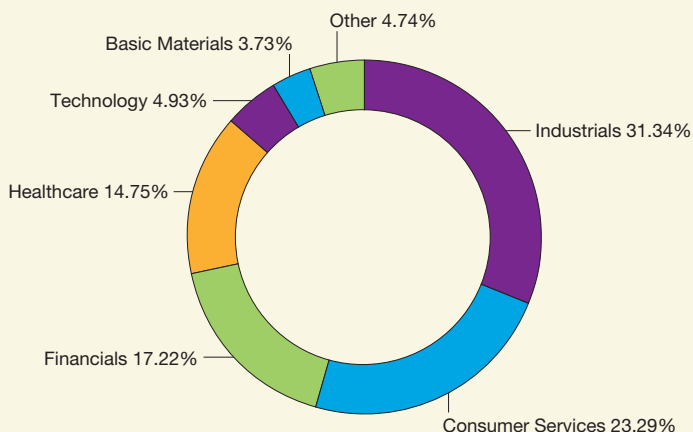
The Fund's 10 largest holdings at the end of this year and the previous year end are shown below.

Holdings	% of Fund Value as at 31.01.14
1 IP Group	6.08
2 Xaar	5.38
3 Oxford Instruments	4.20
4 Abcam	4.03
5 Ricardo	3.09
6 ASOS	3.00
7 Renishaw	2.88
8 Ocado Group	2.75
9 Victrex	2.60
10 Diploma	2.48

Holdings	% of Fund Value as at 31.01.13
1 ASOS	4.84
2 Genus	4.60
3 IP Group	4.32
4 Abcam	4.23
5 Oxford Instruments	4.15
6 Victrex	4.10
7 Rightmove	3.86
8 Diploma	3.81
9 Hargreaves Lansdown	3.26
10 SDL	3.13

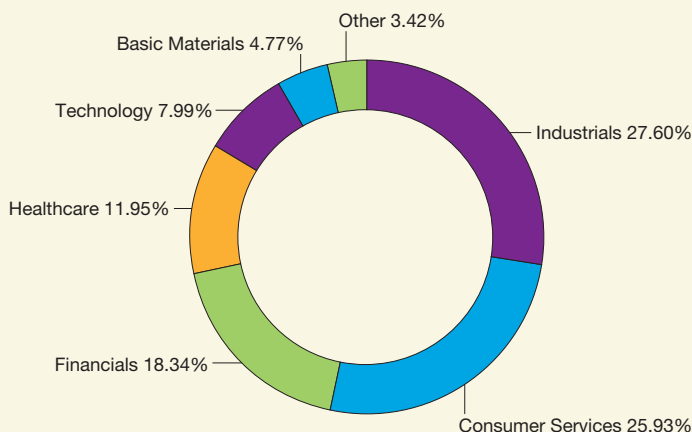
## Classification of Investments

### 31st January 2014



Net assets: £203,512,000

### 31st January 2013



Net assets: £201,712,000

## 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 Date: 31st January.  
Distribution Payment Date: 31st March.

## 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 [trusenquiries@bailliegifford.com](mailto:trusenquiries@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,  
1 Greenside Row,  
Edinburgh EH1 3AN

### Auditor

KPMG Audit Plc  
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)  
Calton Square,  
1 Greenside Row,  
Edinburgh EH1 3AN