

Baillie Gifford Investment Grade Bond Fund

a sub-fund of Baillie Gifford Bond Funds ICVC



Authorised Corporate Director's Annual Short Report for the year ended 30th September 2013

DRAFT

Investment Objective

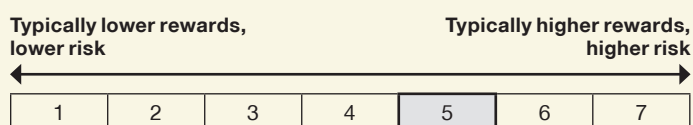
The Fund aims to maximise total return, through combined capital growth and income payment whilst achieving a higher level of income than that earned from investment only in comparable UK government bonds.

Investment Policy

To invest worldwide mainly in investment grade bonds issued in sterling. Derivatives, which are a type of financial contract, may be used to protect or increase the value of the shares.

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 corporate bonds which generally provide higher rewards and higher risks than other investments such as government bonds and 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 issuers of bonds in which the Fund invests may not meet their obligations which could mean that the bonds lose some or all of their value. The Fund's concentrated portfolio and long-term approach to investment may result in large movements in the share price. The Fund's use

of financial contracts may impact on its performance. In certain circumstances it can be difficult to buy or sell the Fund's holdings and even small purchases or sales can cause their prices to move significantly, affecting the value of the Fund and the price of shares in the Fund. Market values for securities which are difficult to trade may not be readily available, and there can be no assurance that any value assigned to them will reflect the price the Fund might receive upon their sale.¹

Investment Report

For the year to 30th September 2013 the gross return on A Net Income Shares was 2.9%² (net return 2.2%³) compared to the return on the Bank of America Merrill Lynch Sterling Non-Gilts Index of 3.0%⁴. We believe that shorter-term performance measurements are of limited relevance in assessing investment ability and would suggest that three years is a more sensible time frame over which to judge performance. Over three years the Fund has been ahead of its comparative index.

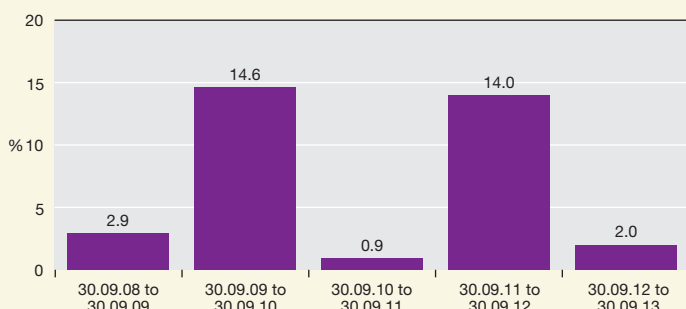
There have been two competing forces influencing the sterling investment grade corporate bond market over the last twelve months. On one hand the market has been rallying relative to the underlying gilt market as European fears have subsided, on the other the underlying gilt market has been selling off on concerns surrounding rising interest rates. The interplay of these two forces has left sterling corporate bonds delivering low to mid single digit percentage returns over the last twelve months.

Within the portfolio a number of positions have positively contributed to performance. Phoenix Life managed to raise equity and extend the maturity of its bank debt which was a substantial positive for the company and saw these bonds perform materially better than the broader market. We also saw the portfolio's holdings of Credit Logement perform well as the market priced in a greater likelihood of these bonds being bought back by the company at an attractive price.

We can still see a lot of bonds which look cheap relative to their companies' positions within the market which is a good backdrop against which to be a stock-picker. The portfolio still has limited exposure to the periphery of Europe and has offset this with holdings in emerging markets where we see better risk adjusted returns.

Stephen Rodger, 23rd October 2013

Past Performance⁵



The performance figures shown in this graph are for Class A Net Income Shares. Performance figures reflect the ACD's annual fee of 1%, but exclude any initial charge paid. Please note these returns differ from those in the Investment Report, which are based on the closing mid prices on the last business day. 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 30.09.13	Net Asset Value per Share 30.09.12
A Net Income	88.43p	88.84p
B Net Income	91.83p	92.25p
C Net Income	94.64p	95.07p
C Gross Accumulation	160.1p	153.7p

Distributions (for the Calendar Year)

Share Class	Net Income per Share Period to 30.09.13	Net Income per Share Year to 31.12.12
A Net Income	2.03p	2.77p
B Net Income	2.54p	3.34p
C Net Income	2.73p	3.62p
C Gross Accumulation	5.94p	7.10p

Ongoing Charges Figures (for the Financial Year)⁶

Share Class	Ongoing Charges Figure 30.09.13	Ongoing Charges Figure 30.09.12
A Net Income	1.05%	1.05%
B Net Income	0.30%	0.29%
C Net Income	0.05%	0.05%
C Gross Accumulation	0.05%	0.05%

Highest and Lowest Prices (for the Calendar Year)

Share Class	Highest Price per Share 2013	Lowest Price per Share 2013	Highest Price per Share 2012	Lowest Price per Share 2012
A Net Income	95.16p	87.33p	91.82p	81.83p
B Net Income	98.90p	90.83p	95.49p	84.97p
C Net Income	101.9p	93.55p	98.46p	87.54p
C Gross Accumulation	168.3p	156.1p	159.5p	136.4p

¹Further 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.

²Source: Baillie Gifford & Co Limited, closing mid prices, gross income reinvested. ³Source: Baillie Gifford & Co Limited, closing mid prices, net income reinvested.

⁴Source: FE, gross income return. ⁵Source: FE, 10am dealing prices, net income reinvested. ⁶The 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

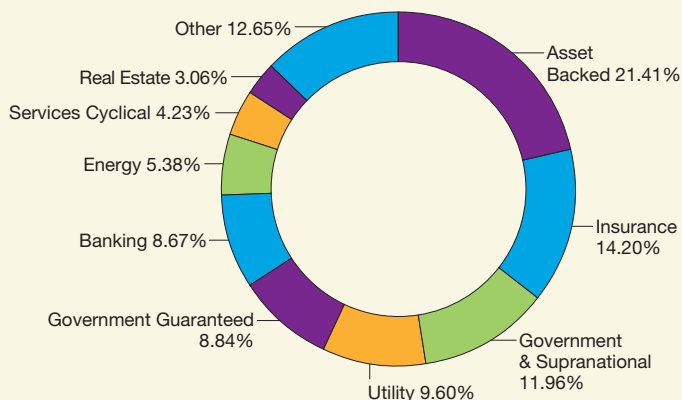
The Fund's 10 largest bond holdings at the end of this year and the previous financial year end are shown below.

Holdings	% of Fund Value as at 30.09.13
1 IBRD 0.875% 2014	4.61
2 Amlin 6.5% 2016/26	3.78
3 EDF 6% 2026 Perp	3.50
4 KFW 6% 2028	3.22
5 Annington Finance 4 5.3236% 2023	3.00
6 Merrill Lynch 5.5% 2021	2.99
7 Lloyds TSB 6.5% 2040	2.72
8 University of Cambridge 3.75% 2052	2.55
9 IBRD 5.4% 2021	2.29
10 ENW Capital Finance 6.75% 2015	2.19

Holdings	% of Fund Value as at 30.09.12
1 IBRD 0.875% 2014	3.19
2 Linde 8.125% 2016/66	2.89
3 Merrill Lynch 5.5% 2021	2.88
4 Lloyds TSB 6.5% 2040	2.66
5 Provident Financial 8% 2019	2.52
6 Equity Release II 5.88% 2032	2.34
7 Royal Bank of Scotland 7.5% 2024	2.11
8 Old Mutual 6.376% 2020 Perp	2.10
9 HSBC Holdings 5.75% 2027	2.09
10 AT&T 7% 2040	1.97

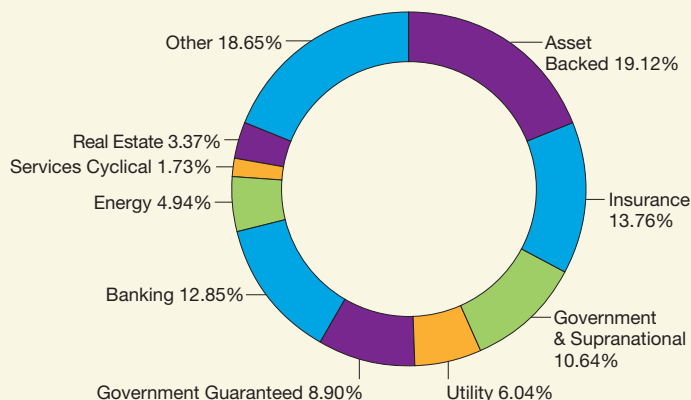
Classification of Investments

30th September 2013



Net assets: £236,284,000

30th September 2012



Net assets: £257,153,000

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.

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 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 call Client Relations on 0800 917 2113 (fax 0131 275 3955) or visit our website at www.bailliegifford.com or email us at trustenquiries@bailliegifford.com. Any comments expressed in this report should not be taken as a recommendation or advice.

Fund Charges and Costs

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.

Fund Facts

XD Dates: 31st December, 31st March, 30th June and 30th September.
Distribution Payment Dates: 28th February, 31st May, 31st August and 30th November.

Dilution Adjustment

The level of the dilution adjustment is set by the ACD based on prevailing market conditions. Given the volatility and illiquidity in corporate bond markets the ACD has a threshold for daily net inflows or outflows of cash into or out of the Fund. Above this threshold, which varies according to market conditions, the ACD will increase the dilution adjustment to reflect the increased dealing costs incurred by the Fund as a result of larger inflows and outflows. A consequence of this policy is, however, that smaller transactions made on any day that the relevant threshold is exceeded will also trade at the price incorporating the higher adjustment and this may lead to increased dealing costs. Further information regarding the dilution adjustment may be found in the Supplementary Information Document or the Prospectus.

Minimum Investment Levels

The minimum initial investment is £1,000 for Class A Shares and £10,000 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. Class C Gross Accumulation Shares are only available to shareholders who demonstrate to the ACD's satisfaction that they fall within one of the specified categories referred to in Sections 933-977 of the Income Tax Act 2007. Details of the minimum holding and redemption levels can be found in the Supplementary Information Document and Prospectus.

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

Depository

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 & Depository Services,
The Younger Building,
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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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Edinburgh EH1 3AN

Auditor

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

Registrar

Baillie Gifford Savings Management Limited
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Calton Square,
1 Greenside Row,
Edinburgh EH1 3AN