

# Baillie Gifford High Yield 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

### Investment Objective

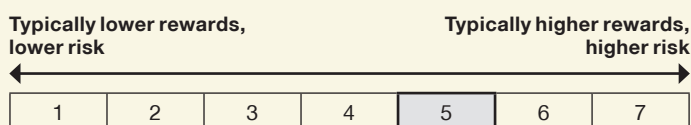
The Fund aims to achieve a high level of total return, through combined capital growth and income payment.

### Investment Policy

To invest mainly in sub-investment grade bonds. 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.<sup>1</sup>

### Investment Report

For the year to 30th September 2013 the gross return on A Net Income Shares was 13.7%<sup>2</sup> (net return 12.4%<sup>3</sup>) compared to the sterling-hedged return on the Merrill Lynch European Currency High Yield Constrained Index of 13.8%<sup>4</sup>. 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.

The European high yield bond market provided a good return for investors with strong income generation and further price appreciation as investor appetite for credit risk and the associated yield premium compared to safer alternatives continued to grow.

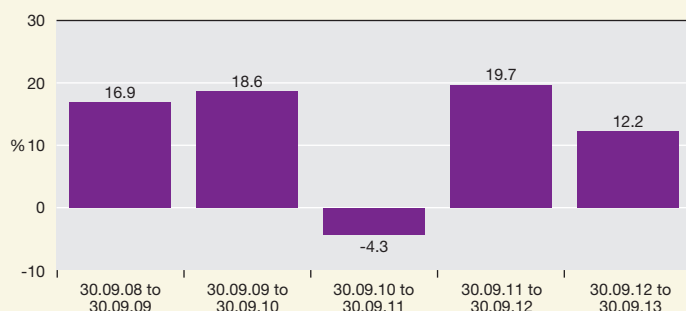
The low level of benchmark government bond yields means that companies' borrowing costs are relatively low which has encouraged borrowers to bring new bonds to market. In particular, companies in the southern European 'periphery' of Spain, Italy, Greece and Portugal have found the bond market a far friendlier place this year and have used this window to refinance away from now reluctant bank lenders. We have invested selectively in some of these new opportunities, buying bonds from companies such as Greece's Intralot, Spain's Avanza and Italy's Team System. These businesses have demonstrated considerable resilience to the economic turmoil in their respective domestic markets and offer an attractive yield relative to risk, in our opinion.

With economic growth in Europe virtually non-existent this has been a difficult environment for many companies. Both Ideal Standard International and Stork Technical Services suffered weak operational performance in this context, causing us to sell the former. Two other disappointing investments this year were Lanthus, the US radiopharmaceutical manufacturer, and New World Resources, the Czech coal miner. Both have been sold at small losses to protect value for the Fund's investors and we are keen to learn from these experiences to help make us better investors.

On a more positive note the Fund experienced strong returns from several of its holdings in the financial sector including Phoenix Life, the UK life insurance business. This relatively long-standing holding continued its rehabilitation by raising new equity and extending the maturity of its bank borrowings helping the company's bonds to rally sharply.

Robert Baltzer and Donald Phillips, 11th October 2013

### Past Performance<sup>5</sup>



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	121.5p	112.2p
B Net Income	125.3p	115.7p
B Net Accumulation	186.4p	164.3p
C Net Income	130.9p	120.9p
C Gross Accumulation	269.0p	233.6p

### 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	4.00p	5.57p
B Net Income	4.72p	6.33p
B Net Accumulation	6.94p	8.62p
C Net Income	5.19p	6.92p
C Gross Accumulation	13.25p	15.88p

### Ongoing Charges Figures (for the Financial Year)<sup>6</sup>

Share Class	Ongoing Charges Figure 30.09.13	Ongoing Charges Figure 30.09.12
A Net Income	1.04%	1.03%
B Net Income	0.39%	0.38%
B Net Accumulation	0.40%	0.39%
C Net Income	0.04%	0.06%
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	125.3p	119.2p	121.1p	101.4p
B Net Income	129.6p	123.3p	125.1p	104.6p
B Net Accumulation	187.9p	177.0p	177.5p	142.0p
C Net Income	135.4p	128.8p	130.8p	109.1p
C Gross Accumulation	271.1p	252.6p	253.4p	199.5p

<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 Limited, closing mid prices, gross income reinvested. <sup>3</sup>Source: Baillie Gifford & Co Limited, closing mid prices, net income reinvested.

<sup>4</sup>Source: FE, gross income return. <sup>5</sup>Source: FE, 10am dealing prices, net income reinvested. <sup>6</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

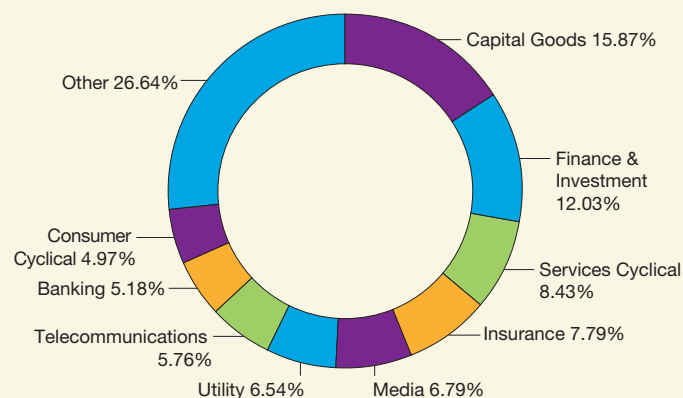
The Fund's 10 largest bond holdings at the end of this year and the previous financial year end are shown below.

Holdings	% of Fund Value as at 30.09.13
1 Rexam 6.75% 2017/67	4.10
2 LBG Capital 2 Plc 15% 2019	3.36
3 International Personal Finance 11.5% 2015	3.16
4 Heidelberg Cement 8.5% 2019	3.13
5 Ardagh Packaging 7.375% 2017 (EUR)	2.72
6 Lloyds of London 7.421% 2017 Perp	2.37
7 UPC 6.375% 2020	2.31
8 Pennon Group 6.75% 2018 Perp	2.16
9 Credit Acceptance 9.125% 2017	1.94
10 EDF 6% 2026 Perp	1.93

Holdings	% of Fund Value as at 30.09.12
1 Rexam 6.75% 2017/67	3.29
2 International Personal Finance 11.5% 2015	3.28
3 DFS Furniture 9.75% 2017	2.77
4 New World Resources 7.875% 2018	2.61
5 RWE 7% 2019 Perp	2.47
6 Lloyds of London 7.421% 2017 Perp	2.44
7 Central Euro Media 11.625% 2016	2.34
8 Credit Logement 4.604% 2011 Perp	2.19
9 Credit Acceptance 9.125% 2017	2.16
10 Inmarsat 7.375% 2017	2.14

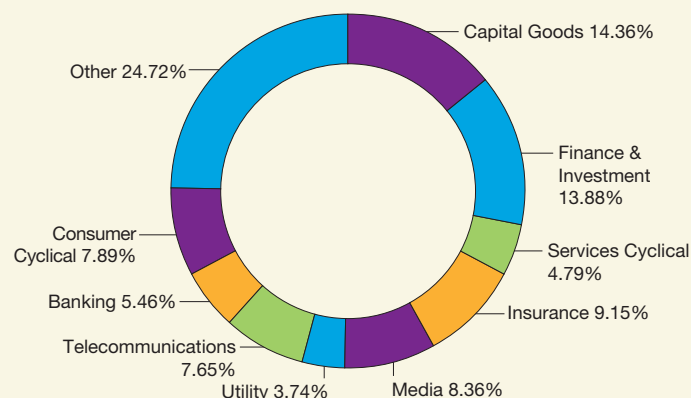
## Classification of Investments

### 30th September 2013



Net assets: £511,528,000

### 30th September 2012



Net assets: £292,452,000

## 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](http://www.bailliegifford.com) or email us at [trustenquiries@bailliegifford.com](mailto: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](http://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,  
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