

Baillie Gifford High Yield Bond Fund

a sub-fund of Baillie Gifford Bond Funds ICVC



Authorised Corporate Director's Interim Short Report for the period ended 31st March 2014

Investment Objective

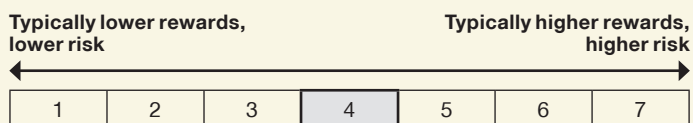
The Fund aims to achieve a high level of total return, through combined capital growth and income payment.

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 Fund.

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. Bonds issued by companies and governments may be adversely affected by changes in interest rates and expectations of inflation. The Fund's concentrated portfolio and long-term approach to investment may result in large movements in the share price. Derivatives may be used to obtain, increase or reduce exposure to assets and may create gearing, all of which may result in greater movements (down or up) in the price of shares in the Fund. It is not our intention that the use of derivatives will significantly alter the overall risk profile of the Fund.

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

In the six months to 31st March 2014, the gross return on A Net Income Shares was 6.6%² (net return 5.9%³) compared to the sterling-hedged return on the Merrill Lynch European Currency High Yield Constrained Index of 7.3%⁴. While a little disappointing, 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 investment ability.

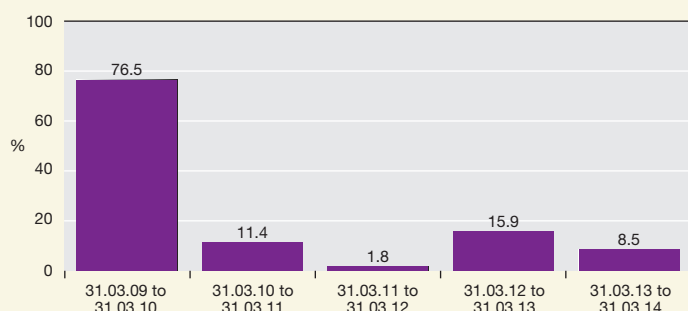
In a strong period for high yield bond returns, one of the main contributors to the Fund's underperformance was its underweight in European 'periphery' countries like Italy and Portugal. As stock-pickers, we have been unable to find many businesses in these countries that we deem to be resilient in the context of the economic tail risks that are still prevalent. However, during the period we have found some opportunities in the 'periphery'; specifically, bonds issued by the international construction businesses Astaldi and Isolux, which are headquartered in Italy and Spain respectively.

More positively, the standout positive contributor to the Fund over the period was its investment in a convertible bond issued by Spanish engineering and concessions business, Abengoa. Abengoa has made strong progress both operationally and financially. Early last year we switched the Fund's holding in conventional fixed coupon bonds into convertible bonds based on attractive relative value. Throughout the course of this performance period, the convertible bonds outperformed traditional Abengoa bonds and, indeed, the wider high yield bond market. Following this strong run, we have now switched the holding in convertible bonds back into the conventional bond.

We are conscious that yields on sub-investment grade bonds are low by historical standards. The current market environment has allowed many companies to build a reasonably long-term debt profile so that they will not require new finance for some time. In our view, this should limit defaults in the next couple of years even if the economy slows. However, we acknowledge there is little cushion built into bond valuations if our sanguine view on defaults proves to be wrong. More than ever, we believe the key to us adding value to our Fund holders is preserving capital by lending to robust and resilient businesses.

Robert Baltzer and Donald Phillips, 10th April 2014

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. 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 Period End)

| Share Class | Net Asset Value per Share 31.03.14 | Net Asset Value per Share 30.09.13 |
|----------------------|---------------------------------------|---------------------------------------|
| A Net Income | 126.5p | 121.5p |
| B Net Income | 130.5p | 125.3p |
| B Net Accumulation | 198.0p | 186.4p |
| C Net Income | 136.4p | 130.9p |
| C Gross Accumulation | 287.7p | 269.0p |

Distributions (for the Calendar Year)

| Share Class | Net Income per Share Period to 31.03.14 | Net Income per Share Year to 31.12.13 |
|----------------------|--|--|
| A Net Income | 1.05p | 5.05p |
| B Net Income | 1.25p | 5.97p |
| B Net Accumulation | 1.95p | 8.89p |
| C Net Income | 1.40p | 6.59p |
| C Gross Accumulation | 3.55p | 16.80p |

Ongoing Charges Figures (for the Financial Period)⁶

| Share Class | Ongoing Charges Figure 31.03.14 | Ongoing Charges Figure 30.09.13 |
|----------------------|------------------------------------|------------------------------------|
| A Net Income | 1.03% | 1.04% |
| B Net Income | 0.37% | 0.39% |
| B Net Accumulation | 0.38% | 0.40% |
| C Net Income | 0.04% | 0.04% |
| C Gross Accumulation | 0.04% | 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 Income | 128.3p | 124.9p | 126.0p | 119.2p |
| B Net Income | 132.5p | 128.9p | 130.2p | 123.3p |
| B Net Accumulation | 199.0p | 193.6p | 193.6p | 177.0p |
| C Net Income | 138.5p | 134.7p | 136.1p | 128.8p |
| C Gross Accumulation | 289.2p | 280.5p | 280.5p | 252.6p |

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, after charges. ³Source: Baillie Gifford & Co Limited, closing mid prices, net income reinvested, after charges. ⁴Source: StatPro, gross income return. ⁵Source: FE, 10am dealing prices, net income reinvested, after charges. ⁶The ongoing charges figure is based on the expenses for the financial period and may vary from year to year. It excludes the cost of buying and selling assets for the Fund. Until 31st March 2014 the ACD's annual fee was calculated on a monthly basis which could lead to distortions in the calculated ongoing charges figure when a share class was expanding or contracting. From 1st April 2014 the ACD's annual fee is calculated on a daily basis. You should be aware that past performance is not a guide to future performance.

Major Holdings

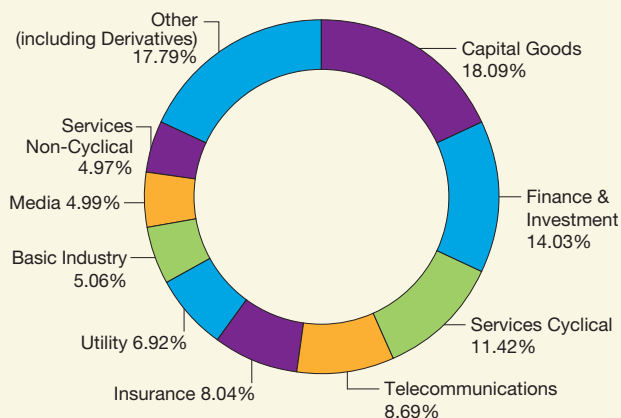
The Fund's 10 largest bond holdings at the end of this period and the previous financial year end are shown below.

| Holdings | % of Fund Value as at 31.03.14 |
|---|-----------------------------------|
| 1 Rexam 6.75% 2017/67 | 4.17 |
| 2 Heidelberg Cement 8.5% 2019 | 3.24 |
| 3 Infinis 7% 2019 | 3.16 |
| 4 International Personal Finance 11.5% 2015 | 3.03 |
| 5 FMG Resources 6.875% 2022 | 2.83 |
| 6 Ardagh Packaging 7.375% 2017 (EUR) | 2.56 |
| 7 Millicom 6.625% 2021 (144A) | 2.18 |
| 8 UPC 6.375% 2020 | 2.17 |
| 9 Softbank 4.5% 2020 (144A) | 2.12 |
| 10 Credit Logement 4.604% 2011 Perp | 1.99 |

| 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 |

Classification of Investments¹

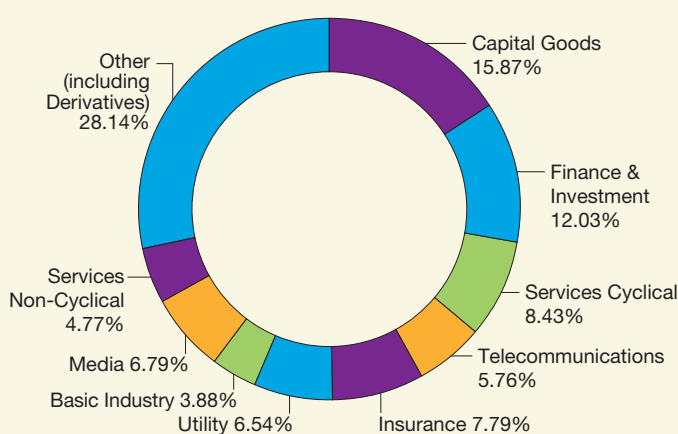
31st March 2014



Net assets: £598,011,000

¹Please note: figures are based on market values rather than economic exposure.

30th September 2013



Net assets: £511,528,000

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 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 period it covers and the result of those activities at the end of the period. For more information about the activities and performance of the Fund during this and previous periods, please call Client Relations on 0800 917 2113 (fax 0131 275 3955) or visit our website at www.bailliegifford.com or email us at trusterenquiries@bailliegifford.com. Any comments expressed in this report should not be taken as a recommendation or advice.

Fund Charges and Costs

We are obliged to quote performance based on the Class A Shares, which have the highest ACD's annual fee. Our Class B Shares carry a lower ACD's annual 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.

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.

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 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 ('ACD')

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
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by the Financial Conduct Authority
and the Prudential Regulation
Authority,
Financial Services Register
No. 121878)
Trustee & Depositary Services,
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Investment Manager

Baillie Gifford & Co
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Financial Conduct Authority,
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Calton Square,
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Auditor

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Edinburgh EH1 2EG

Registrar

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