

Baillie Gifford Investment Grade Long 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

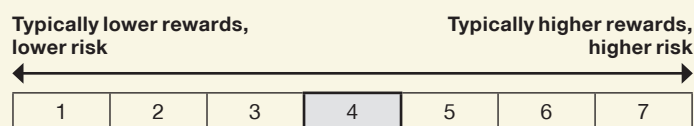
The Fund aims to maximise total return, through combined capital growth and income payment whilst achieving a higher level of income than that earned from investment only in comparable UK government bonds.

Investment Policy

To invest worldwide mainly in long-dated 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. 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 B Net Income Shares was 3.7%² (net return 3.0%³) compared to the return on the Bank of America Merrill Lynch Sterling Non-Gilts Over 10 Year Index of 2.8%⁴. In the same period the equivalent UK gilt index returned 1.5%⁵. This outperformance of corporate bonds versus gilts reflects the higher starting yield on corporate bonds as well as a modest reduction in the risk premium (extra yield) demanded by investors to hold corporate bonds over the period.

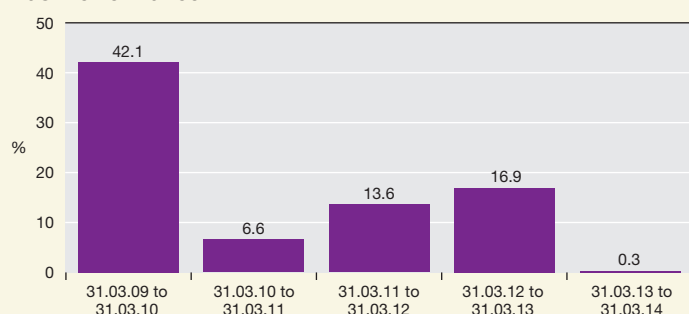
We believe that shorter-term performance measurements are of limited relevance in assessing investment ability and would suggest that three years is a more sensible time frame over which to judge performance. The Fund's performance over this and longer time horizons has been ahead of its comparative index as we have managed to navigate volatile investment markets and take advantage of the excellent stock-picking opportunities that have been thrown up.

Our transactions for your Fund over the last six months have included two particularly interesting purchases. The first is of a new 100 year bond issue by EDF Energy, the French utility company with significant UK operations including the first nuclear new build in the UK for more than twenty years. Your Fund has held EDF bonds for some considerable time and took the opportunity of a very attractive yield on the new bonds to switch from 2034, 2041 and 2050 maturity bonds into the 2114 maturity issue. Because of the relatively high 6% coupon, the interest rate sensitivity of the new issue is, counter intuitively, not noticeably greater than the outstanding 2050 bond. Already, within the period, this bond has made a significantly positive contribution to your Fund's performance.

The second purchase of note is of a sterling-denominated bond issued by Time Warner Cable (TWC) of the US. This company is being bid for by a larger and financially stronger peer, Comcast. Should the takeover succeed, as we expect it to, then TWC's bonds will likely appreciate in value reflecting a stronger strategic and financial position for the combined group as compared to TWC on its own.

Robert Baltzer, 16th April 2014

Past Performance⁶



The performance figures shown in this graph are for Class B Net Income Shares. Performance figures reflect the ACD's annual fee of 0.25% (up to 31st December 2010 the annual fee was 0.40%), 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
B Net Income	110.7p	109.2p
C Net Income	112.2p	110.8p
C Gross Accumulation	194.9p	187.9p

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
B Net Income	0.95p	4.58p
C Net Income	1.05p	4.90p
C Gross Accumulation	2.20p	10.25p

Ongoing Charges Figures (for the Financial Period)⁷

Share Class	Ongoing Charges Figure 31.03.14	Ongoing Charges Figure 30.09.13
B Net Income	0.30%	0.28%
C Net Income	0.04%	0.05%
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
B Net Income	113.0p	108.4p	120.5p	108.1p
C Net Income	114.6p	109.9p	122.3p	109.7p
C Gross Accumulation	197.1p	188.6p	200.8p	181.1p

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: FE, gross income return. ⁵Source: Bloomberg, gross income return. ⁶Source: FE, 10am dealing prices, net income reinvested, after charges. ⁷The 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

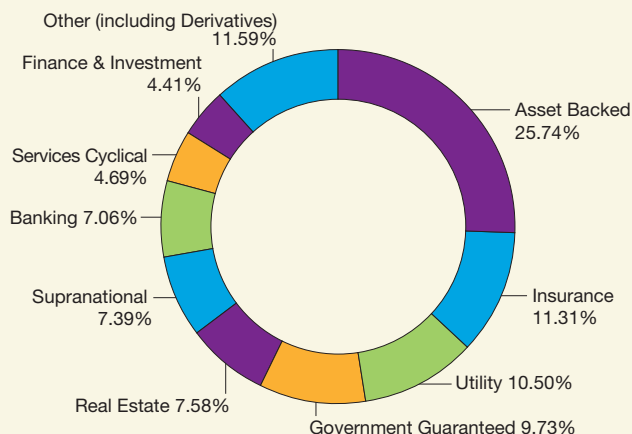
The Fund's 10 largest bond holdings at the end of this period and the previous financial year end are shown below.

Holdings	% of Fund Value as at 31.03.14
1 Annington Finance 4 5.3236% 2023	3.34
2 KFW 6% 2028	2.96
3 EIB 6% 2028	2.89
4 Network Rail 4.75% 2035	2.53
5 GE Capital 5.375% 2040	2.31
6 Longstone Finance 4.791% 2030/36	2.25
7 Phoenix Life 7.25% 2021 Perp	2.24
8 EDF 6% 2114	2.22
9 Daily Mail & General Trust 6.375% 2027	2.05
10 Global Switch 4.375% 2022	2.03

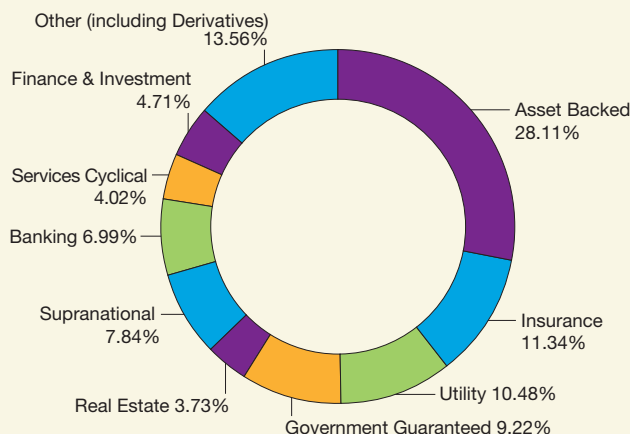
Holdings	% of Fund Value as at 30.09.13
1 Annington Finance 4 5.3236% 2023	3.92
2 KFW 6% 2028	3.18
3 EIB 6% 2028	3.08
4 Longstone Finance 4.791% 2030/36	2.46
5 GE Capital 5.375% 2040	2.37
6 Phoenix Life 7.25% 2021 Perp	2.20
7 EIB 5% 2039	2.14
8 Lloyds TSB Bank 6.5% 2040	2.11
9 Freshwater Finance 5.182% 2035	2.10
10 Yorkshire Water 5.5% 2037	2.08

Classification of Investments¹

31st March 2014



30th September 2013



Net assets: £297,776,000

Net assets: £279,413,000

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

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.baillieghifford.com or email us at trutenquiries@baillieghifford.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.

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 £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. 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
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Depositary

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Registrar

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