Baillie Gifford Investment Grade Bond Fund

a sub-fund of Baillie Gifford Bond Funds ICVC

BAILLIE GIFFORD

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 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 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.

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 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, 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 3.2%[2] (net return 2.7%[3]) compared to the return on the Bank of America Merrill Lynch Sterling Non-Gilts Index of 2.4%[4]. While pleasing, 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 the last six months investment grade corporate bonds performed materially better than UK government bonds. Investor risk appetite has improved and this has shrunk the extra yield or risk premium for investing in investment grade corporate bonds. As we have mentioned in past reports, this is partly attributable to the European Central Bank's President, Mario Draghi, committing to do "whatever it takes" to make the euro safe.

The recovery in western economies is becoming broader based, albeit that some aspects of the upswing show signs of fragility. For example, much of UK growth has been driven by house price rises and increased household borrowing, while in the Eurozone, signs of potential deflation are evident. Overall, our view is that still-high levels of sovereign and consumer indebtedness make this non-traditional recovery vulnerable to shocks.

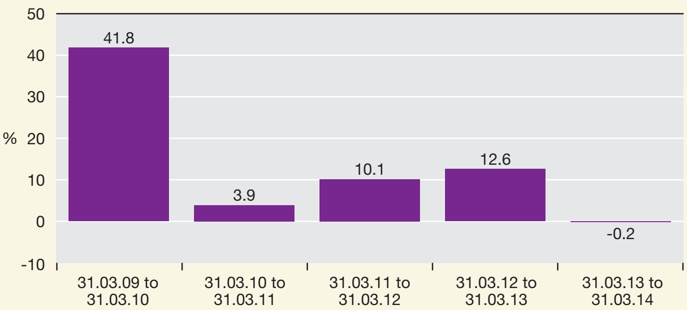
Over the review period, the best returns have been in lower credit quality bonds. Rather than chase these riskier returns, we have sought to seek out opportunities across the different credit rating bands, consistent with our stock-picking skill-set. This approach has allowed us to find a range of unconnected opportunities, and also, we believe, makes the Fund less vulnerable to a potential market setback.

A notable contributor to performance was our investment in the French utility EDF, where we saw particular value in a longer-dated bond which offered a higher yield than existing EDF bonds with only modest additional risk. We also saw our Daily Mail bonds upgraded from high yield to investment grade credit ratings. This was pleasing because it vindicated our long-term thesis that the company's strong competitive position would allow it to improve its balance sheet.

Our outlook remains positive as we see many of the companies to which we lend making good progress towards our desired investment milestones.

Stephen Rodger, 15th April 2014

Past Performance[5]



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	89.74p	88.43p
B Net Income	93.13p	91.83p
C Net Income	96.01p	94.64p
C Gross Accumulation	166.0p	160.1p

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	0.55p	2.58p
B Net Income	0.75p	3.29p
C Net Income	0.80p	3.53p
C Gross Accumulation	1.70p	7.64p

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	1.10%	1.05%
B Net Income	0.29%	0.30%
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 2014	Lowest Price per Share 2014	Highest Price per Share 2013	Lowest Price per Share 2013
A Net Income	91.33p	88.15p	95.16p	87.33p
B Net Income	94.95p	91.52p	98.90p	90.83p
C Net Income	97.91p	94.34p	101.9p	93.55p
C Gross Accumulation	167.8p	161.4p	168.3p	156.1p

[1]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. [2]Source: Baillie Gifford & Co Limited, closing mid prices, gross income reinvested, after charges. [3]Source: Baillie Gifford & Co Limited, closing mid prices, net income reinvested, after charges. [4]Source: FE, gross income return. [5]Source: FE, 10am dealing prices, net income reinvested, after charges. [6]The 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

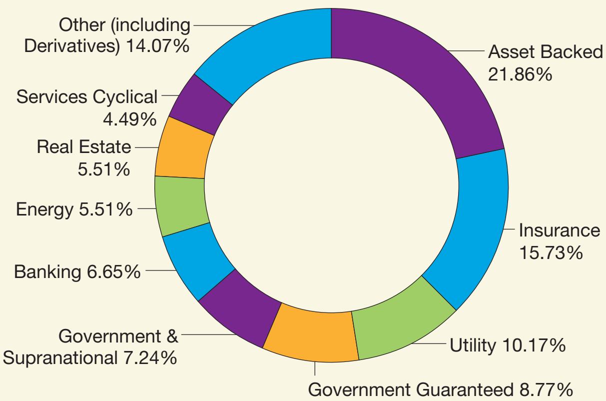
The Fund's 10 largest bond holdings at the end of this period and the previous financial year end are shown below.

	Holdings	% of Fund Value as at 31.03.14
1	Amlin 6.5% 2016/26	4.05
2	EDF 6% 2114	3.79
3	KFW 6% 2028	3.35
4	Annington Finance 4 5.3236% 2023	3.16
5	Lloyds TSB 6.5% 2040	2.86
6	University of Cambridge 3.75% 2052	2.70
7	Old Mutual 6.376% 2020 Perp	2.48
8	Equity Release II 5.88% 2032	2.26
9	ENW Capital Finance 6.75% 2015	2.25
10	Provident Financial 8% 2019	2.15

	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

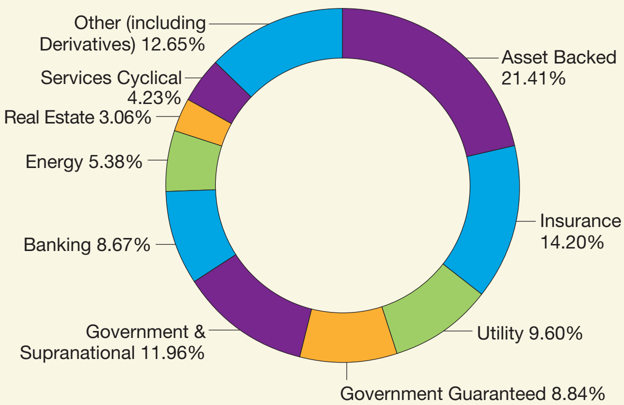
Classification of Investments[1]

31st March 2014



Net assets: £224,853,000

30th September 2013



Net assets: £236,284,000

[1]Please 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.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

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 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