

# BAILLIE GIFFORD

Baillie Gifford Bond Funds ICVC

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Annual Report and Financial Statements

*for the year ended 30 September 2018*



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\*Collectively these comprise the Authorised Corporate Director's Report as required by the Financial Conduct Authority's Collective Investment Schemes Sourcebook ("COLL").

## About the Company

Baillie Gifford Bond Funds ICVC (Investment Company with Variable Capital) ('the Company') is an umbrella UK Open-Ended Investment Company ('OEIC') under regulation 14 (Authorisation) of the Open-Ended Investment Companies Regulations 2001. An OEIC is a collective investment vehicle in which your funds are pooled with those of other investors and spread across a portfolio of investments, thus reducing risk.

At 30 September 2018 the Company offered eight sub-funds and the range may be varied in the future. Each sub-fund is valued on a daily basis. The sub-funds are subject to different charging structures and subscription limits. All shares are single priced. Details of the sub-funds and the share classes are contained in the Prospectus, along with details of the switching facility available between sub-funds. The Prospectus and Instrument of Incorporation were last revised on 1 November 2018. Copies of the Prospectus or Instrument of Incorporation can be obtained from Baillie Gifford & Co Limited, the Authorised Corporate Director ('ACD') by contacting Client Relations.

The Company is registered in Great Britain, registered number IC 402, and the address of its Head Office is Calton Square, 1 Greenside Row, Edinburgh EH1 3AN. The operation of the Company is governed by the Financial Conduct Authority's Collective Investment Schemes Sourcebook ('COLL') (the 'Regulations'), its Instrument of Incorporation and its Prospectus.

The Company's shareholders are not liable for its debts beyond the amount subscribed. Each sub-fund is classed as a UCITS retail scheme under COLL.

Any comments expressed in this report should not be taken as a recommendation or advice

### Sub-fund Cross-holdings Table

At 30 September 2018 none of the shares in the sub-funds were held by any other sub-funds of the Company.

### Amendments to the Name, Investment Objective and Policy of Baillie Gifford Corporate Bond Fund

With effect from 1 May 2018 the name of Baillie Gifford Corporate Bond Fund was changed to Baillie Gifford Strategic Bond Fund. In addition the investment objective and policy of the Fund was amended in order to more clearly explain the way that the Fund invests. The changes did not alter the risk or return profile of the Fund and the Fund continues to be managed with the same investment approach and style. The new investment objective and policy are shown in the Baillie Gifford Strategic Bond Fund section of the accounts.

### Amendments to the Name, Investment Objective and Policy of Baillie Gifford Active Gilt Plus Fund

With effect from 1 November 2018 the name of Baillie Gifford Active Gilt Plus Fund was changed to Baillie Gifford Active Gilt Investment Fund. In addition the investment objective and policy of the Fund was amended.

The new investment objective and policy are:

#### Objective

The Fund aims to produce a total return, through combined capital growth and income payment, before charges, that is on average 0.5% greater than the total return of the FTSE Actuaries UK Conventional Gilts All Stocks Index. There is no guarantee that a positive return will be achieved over rolling three year periods or any time period.

#### Policy

To invest mainly in UK government bonds. Currency forwards and derivatives, which are types of financial contracts, are used to protect or enhance the return of the Fund, including for investment purposes. Other bonds are used for investment purposes. The Fund is exposed to foreign currencies. We will assess performance of the Fund compared to the index over rolling three year periods.

## About the Company cont.

### **Amendments to the Name, Investment Objective and Policy of Baillie Gifford Active Index-Linked Gilt Plus Fund**

With effect from 1 November 2018 the name of Baillie Gifford Active Index-Linked Gilt Plus Fund was changed to Baillie Gifford Active Index-Linked Gilt Investment Fund. In addition the investment objective and policy of the Fund was amended.

The new investment objective and policy are:

#### Objective

The Fund aims to produce a total return, through combined capital growth and income payment, before charges, that is on average 0.5% greater than the total return of the FTSE Actuaries UK Index-Linked Gilts Over 5 Years Index. There is no guarantee that a positive return will be achieved over rolling three year periods or any time period.

#### Policy

To invest mainly in UK government bonds. Currency forwards and derivatives, which are types of financial contracts, are used to protect or enhance the return of the Fund, including for investment purposes. Other bonds are used for investment purposes. The Fund is exposed to foreign currencies. We will assess performance of the Fund compared to the index over rolling three year periods.

### **Amendments to the Name, Investment Objective and Policy of Baillie Gifford Active Long Gilt Plus Fund**

With effect from 1 November 2018 the name of Baillie Gifford Active Long Gilt Plus Fund was changed to Baillie Gifford Active Long Gilt Investment Fund. In addition the investment objective and policy of the Fund was amended.

The new investment objective and policy are:

#### Objective

The Fund aims to produce a total return, through combined capital growth and income payment, before charges, that is on average 0.5% greater than the total return of the FTSE Actuaries UK Conventional Gilts

Over 15 Years Index. There is no guarantee that a positive return will be achieved over rolling three year periods or any time period.

#### Policy

To invest mainly in UK government bonds. Currency forwards and derivatives, which are types of financial contracts, are used to protect or enhance the return of the Fund, including for investment purposes. Other bonds are used for investment purposes. The Fund is exposed to foreign currencies. We will assess performance of the Fund compared to the index over rolling three year periods.

### **Amendment to the ACD's Annual Fee**

With effect from 2 July 2018, the annual fee rate for Class A Shares of Baillie Gifford Emerging Markets Bond Fund decreased from 1.30% per annum to 1.10% per annum.

With effect from 2 July 2018, the annual fee rate for Class B Shares of Baillie Gifford Emerging Markets Bond Fund decreased from 0.60% per annum to 0.40% per annum.

With effect from 1 November 2018, the annual fee rate for Class A Shares of Baillie Gifford Active Gilt Investment Fund decreased from 1.00% per annum to 0.80% per annum.

With effect from 1 November 2018, the annual fee rate for Class B Shares of Baillie Gifford Active Gilt Investment Fund, Baillie Gifford Active Index- Linked Gilt Investment Fund and Baillie Gifford Active Long Gilt Investment Fund decreased from 0.35% per annum to 0.15% per annum.

With effect from 1 November 2018, the annual fee rate for Class G Shares of Baillie Gifford Active Gilt Investment Fund, Baillie Gifford Active Index- Linked Gilt Investment Fund and Baillie Gifford Active Long Gilt Investment Fund decreased from 0.25% per annum to 0.15% per annum.

## About the Company cont.

### **Change of Depositary and Custodian**

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With effect from 15 October 2018, the legal entity that the Company contracts for depositary services changed from National Westminster Bank plc to NatWest Trustee and Depositary Services Limited. Also with effect from 15 October 2018, the legal entity that the Company contracts for custody services changed from Bank of New York Mellon SA/NV LB to Bank of New York Mellon London Branch.

### **Cessation of the Baille Gifford Monthly Savings Plan**

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With effect from 20 December 2018, the Baille Gifford Monthly Savings Plan will no longer be available. The Monthly Savings Plans are currently only available in respect of Class B accumulation shares linked to Baillie Gifford Strategic Bond Fund subject to a minimum regular monthly contribution of £50 or more per month.

## About the Company cont.

### Authorised Corporate Director

Baillie Gifford & Co Limited  
(Authorised & regulated by the Financial Conduct Authority, Financial Services Register No. 119179)  
Calton Square,  
1 Greenside Row,  
Edinburgh EH1 3AN  
Telephone: 0800 917 2113  
Fax: 0131 275 3955

### Directors of the ACD

A W Paterson (Chairman)  
E Delaney  
P J Edwardson  
C M Fraser  
D S McGowan  
S Swindells  
A J Telfer  
M J C Wylie

### Investment Adviser

Baillie Gifford & Co  
(Authorised & regulated by the Financial Conduct Authority, Financial Services Register No. 142597)  
Calton Square,  
1 Greenside Row,  
Edinburgh EH1 3AN

### Depository

NatWest Trustee and Depositary Services Limited  
(formerly 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. 794152)  
Trustee & Depositary Services,  
Drummond House,  
1 Redheughs Avenue,  
Edinburgh EH12 9RH

### Registrar

Baillie Gifford & Co Limited  
(Authorised & regulated by the Financial Conduct Authority, Financial Services Register No. 119179)  
Calton Square,  
1 Greenside Row,  
Edinburgh EH1 3AN

### Independent Auditors

PricewaterhouseCoopers LLP  
Atria One,  
144 Morrison Street,  
Edinburgh EH3 8EX

*Baillie Gifford & Co Limited, the Authorised Corporate Director of the OEIC, is wholly owned by Baillie Gifford & Co. We only provide information about our products and do not provide investment advice.*



# Statement of Authorised Corporate Directors' Responsibilities

The Financial Conduct Authority's Collective Investment Schemes Sourcebook ('COLL') requires the Authorised Corporate Director to prepare financial statements for each interim and annual accounting period which give a true and fair view of the financial position of the Company and of its revenue and expenditure and of its net gains and losses on the property of the Company for the year. In preparing the financial statements the Authorised Corporate Director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- comply with the disclosure requirements of the Statement of Recommended Practice relating to the Financial Statements of UK Authorised Funds issued in 2014;
- follow generally accepted accounting principles and applicable accounting standards;
- keep proper accounting records which enable it to demonstrate that the financial statements as prepared comply with the above requirements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in operation; and
- take reasonable steps for the prevention and detection of fraud and irregularities.

The Authorised Corporate Director is responsible for the management of the Company in accordance with the Instrument of Incorporation, the Prospectus and the Regulations.

The Annual Report and Financial Statements were approved by the Authorised Corporate Director and signed on its behalf by:

*A W Paterson, Chairman  
C M Fraser, Director  
Baillie Gifford & Co Limited  
3 December 2018*

# Statement of Depositary's Responsibilities and Report of the Depositary to the Shareholders of Baillie Gifford Bond Funds ICVC ('The Company') for the Year Ended 30 September 2018

The Depositary must ensure that the Company is managed in accordance with the Financial Conduct Authority's Collective Investment Schemes Sourcebook, the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228) (the OEIC Regulations), as amended, the Financial Services and Markets Act 2000, as amended, (together 'the Regulations'), the Company's Instrument of Incorporation and Prospectus (together 'the Scheme documents') as detailed below.

The Depositary must in the context of its role act honestly, fairly, professionally, independently and in the interests of the Company and its investors.

The Depositary is responsible for the safekeeping of all custodial assets and maintaining a record of all other assets of the Company in accordance with the Regulations.

The Depositary must ensure that:

- the Company's cash flows are properly monitored and that cash of the Company is booked into the cash accounts in accordance with the Regulations;
- the sale, issue, redemption and cancellation of shares are carried out in accordance with the Regulations;
- the value of the shares of the Company are calculated in accordance with the Regulations;
- any consideration relating to transactions in the Company's assets is remitted to the Company within the usual time limits;
- the Company's income is applied in accordance with the Regulations and;
- the instructions of the Authorised Fund Manager ('the AFM') are carried out (unless they conflict with the Regulations).

The Depositary also has a duty to take reasonable care to ensure that the Company is managed in accordance with the Regulations and the Scheme documents in relation to the investment and borrowing powers applicable to the Company.

Having carried out such procedures as we consider necessary to discharge our responsibilities as Depositary of the Company, it is our opinion, based on the

information available to us and the explanations provided, that in all material respects the Company, acting through the AFM:

- (i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Company's shares and the application of the Company's income in accordance with the Regulations and the Scheme documents of the Company, and
- (ii) has observed the investment and borrowing powers and restrictions applicable to the Company.

NatWest Trustee and Depositary Services Limited  
(formerly National Westminster Bank Plc)  
Trustee & Depositary Services  
Edinburgh  
1 October 2018



# Independent Auditors' Report to the Shareholders of Baillie Gifford Bond Funds ICVC

## Report on the audit of the financial statements

### Opinion

In our opinion, Baillie Gifford Bond Funds ICVC's financial statements:

- give a true and fair view of the financial position of the Company and each of the sub-funds as at 30 September 2018 and of the net revenue and the net capital gains/(losses) on the scheme property of the Company and each of the sub-funds for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law), the Statement of Recommended Practice for UK Authorised Funds, the Collective Investment Schemes sourcebook and the Instrument of Incorporation.

Baillie Gifford Bond Funds ICVC (the "Company") is an Open Ended Investment Company ('OEIC') with eight sub-funds. The financial statements of the Company comprise the financial statements of each of the sub-funds. We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report") which comprise: the balance sheets as at 30 September 2018; the statements of total return and the statement of change in net assets attributable to shareholders for the year then ended; the distribution tables; the accounting policies; and notes to the financial statements.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the Authorised Corporate Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Authorised Corporate Director has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's or any of the sub-funds' ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's and each of the sub-funds' ability to continue as a going concern.

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Authorised Corporate Director is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an

apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

### *Authorised Corporate Director's Report*

In our opinion, the information given in the Authorised Corporate Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Responsibilities for the financial statements and the audit**

#### *Responsibilities of the Authorised Corporate Director for the financial statements*

As explained more fully in the Statement of Authorised Corporate Director's Responsibilities set out on page 5, the Authorised Corporate Director is responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Authorised Corporate Director is also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Authorised Corporate Director is responsible for assessing the Company's and each of the sub-funds ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Authorised Corporate Director either intends to wind up or terminate the Company or individual sub-fund, or has no realistic alternative but to do so.

#### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if,

individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### *Use of this report*

This report, including the opinions, has been prepared for and only for the Company's shareholders as a body in accordance with paragraph 4.5.12 of the Collective Investment Schemes sourcebook as required by paragraph 67(2) of the Open-Ended Investment Companies Regulations 2001 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### **Other required reporting**

#### **Opinion on matter required by the Collective Investment Schemes sourcebook**

In our opinion, we have obtained all the information and explanations we consider necessary for the purposes of the audit.

#### **Collective Investment Schemes sourcebook exception reporting**

Under the Collective Investment Schemes sourcebook we are also required to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

*PricewaterhouseCoopers LLP*  
*Chartered Accountants and Statutory Auditors*  
*Edinburgh*  
*3 December 2018*

# Accounting Policies

## (1) *Basis of accounting*

The financial statements have been prepared under the historical cost basis, as modified by the revaluation of investments and in accordance with UK Generally Accepted Accounting Principles, the Instrument of Incorporation, the Statement of Recommended Practice ('SORP') relating to the Financial Statements of UK Authorised Funds issued in 2014 and the Financial Conduct Authority's Collective Investment Schemes Sourcebook ('COLL'). Unless otherwise stated accounting policies within these financial statements are consistent with prior year policies.

The financial statements have been prepared on a going concern basis.

FRS 102 requires the Company to disclose, for the financial instruments held, the level within the fair value hierarchy that the fair value measurement of those instruments should be categorised. The fair value hierarchy is as follows:

- Level 1: The unadjusted quoted price in an active market for an identical instrument.
- Level 2: Valuation techniques using observable inputs other than quoted prices included within Level 1.
- Level 3: Valuation techniques using unobservable inputs.

## (2) *Recognition of income*

*Debt Securities:* Income on debt securities is recognised on an effective interest basis by reference to the purchase price.

*Swap Agreements:* Income Payable or receivable on swap agreements is accrued on a daily basis.

*Deposits and Other Income:* Interest on deposits is accounted for on an accruals basis. Underwriting commission is recognised when the issue takes place. Other income is accounted for on either an accruals or a receipts basis depending on the circumstances of each particular case.

## (3) *Treatment of management expenses*

For all the sub-funds, all management expenses, other than those relating to the purchase and sale of investments and custodian transaction costs, have been allocated against revenue. For all of the sub-funds VAT is written off to the extent that it is not considered to be recoverable.

## (4) *Allocation of revenue and expenses to share classes*

Revenue is allocated when earned in the proportion of the net asset value of each share class to the total net asset value of the relevant sub-fund. Expenses incurred solely in respect of a share class are allocated directly to that class. Expenses incurred in respect of, or attributable to, the relevant sub-fund as a whole are allocated when incurred in the proportion of the net asset value of each share class to the total net asset value of the relevant sub-fund.

## (5) *Distribution policies*

Baillie Gifford Strategic Bond Fund distributes monthly and pays interest distributions. All the other sub-funds distribute quarterly and pay interest distributions. All sub-funds pay distributions out of income after the deduction of relevant expenses.

## (6) *Taxation*

Corporation tax is charged at 20% of the revenue liable to corporation tax less allowable expenses and, where applicable, interest distributions made. All sub-funds satisfied the qualifying investments test of Statutory Instrument 2006/964 Authorised Investment Funds (Tax) Regulations 2006 Regulation 19 throughout the year. All distributions are therefore made as interest distributions.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay less or receive more tax. Deferred tax assets are recognised only to the extent that the ACD considers that it is more likely than not that there will be taxable profits from which the underlying timing differences can be deducted. Deferred tax assets are not discounted.

## Accounting Policies cont.

(7) *Basis of valuation of investments*

The investments of the sub-funds have been valued at the closing bid prices on 30 September 2018, or the Investment Adviser's valuation where indicated. Investments are valued using the fair value hierarchy, referenced in accounting policy 1.

(8) *Foreign exchange*

All foreign securities and currencies held at the year end have been translated into sterling at the rate of exchange ruling at 30 September 2018. Transactions during the year have been translated at the exchange rate ruling on the transaction date.

(9) *Financial Derivative Instruments*

*Currency Contracts:* Spot and forward currency contracts are marked to market daily and the change in value, if any, is recorded by the sub-fund as an unrealised gain or loss. Realised gains or losses equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed are recorded upon delivery or receipt of the currency or, if a spot or forward currency contract is offset by entering into another spot or forward currency contract with the same broker, upon settlement of the net gain or loss.

*Futures Contracts:* Futures contracts are marked to market daily and an appropriate gain or loss for the change in value ('variation margin') is recorded by the sub-fund as realised.

*Swap Agreements:* Swaps are marked to market daily based upon quotations from market makers and the change in value, if any, is recorded by the sub-fund as unrealised gain or loss. A liquidation payment received or made at the termination of all or part of the swap is recorded as a realised gain or loss. Costs relating to the clearing of swaps are included as part of realised gains or losses.

# Risk Disclosures

## General Risk Management Process

The Company's overall risk management process is the responsibility of the ACD. Risks which are specific to the sub-funds are managed by the ACD in accordance with the Risk Management Policy, with oversight by the Depositary. The ACD has established a risk management framework, including a permanent risk management function, to monitor the risks in relation to the sub-funds. Where appropriate, the risk management function builds on the existing parts of the risk management framework of the Investment Adviser to make use of expertise and advice, and avoid unnecessary duplication.

The risk profile of each of the sub-funds is considered by the ACD to determine the nature and extent of risk management procedures and assess the appropriateness of disclosures made to investors. The ACD then considers the material risks facing the sub-funds via the receipt of quarterly reports from the risk management function.

## Sub-Fund Risk Profile

The risk profile of a sub-fund is determined using a number of factors including market risk (comprising foreign currency risk, interest rate risk and other price risk), counterparty credit risk, liquidity risk and operational risk. As described above, the ACD operates a risk management framework to oversee the risks that the sub-funds are exposed to and assess the sensitivity of a sub-fund's portfolio to these risks. The approach to managing these risks is set out below with oversight and monitoring provided by the ACD's risk management function.

### *Market Risk*

Market risk is the potential for changes in the market value of underlying investments in a sub-fund. This comprises foreign currency risk, interest rate risk and other price risk.

Asset allocation is determined by the Investment Adviser who ensures that the distribution of the sub-funds' assets is appropriate in terms of the investment objectives. Divergence from the target asset allocation is strictly controlled and the portfolio closely monitored in terms of risk.

A sub-fund may use derivatives for the purposes of hedging (which includes efficient portfolio management) and also for the purposes of meeting its investment objectives. The strategies used may include active currency management, bond curve strategies, interest rate strategies, asset allocation and market spread strategies; in addition, derivatives are used for the purposes of efficient portfolio management. The Investment Adviser makes use of these strategies as and when it considers it appropriate to do so. Derivative investments (which may be exchange-traded and/or off-exchange) are undertaken on a covered basis and the types of asset which underlie the derivative contract are appropriate in the context of each sub-fund's investment objective and policy. The Investment Adviser's use of derivatives is constrained to a level that this risk and exposure is within prescribed limits. The Investment Adviser anticipates that such use of derivatives will not have any adverse effect on the overall risk profile of any sub-fund.

The market risk of each sub-fund's financial asset and liability positions is monitored by the Investment Adviser using VaR analysis. VaR analysis attempts to reflect the interdependencies between risk variables, unlike a traditional sensitivity analysis. VaR represents the potential losses from adverse changes in market factors for a specified time period and confidence level. Disclosure on the VaR, is contained in the Notes to the Financial Statements of each sub-fund.

### *Foreign currency risk*

The Investment Adviser has identified three principal areas where foreign currency risk could impact the sub-funds, being where movements in exchange rates affect the value of investments, short-term timing differences and the revenue received.

A proportion of the net assets of all the sub-funds are denominated in currencies other than sterling, with the effect that the balance sheet and total return can be affected by currency movements. The balance sheet currency exposure is disclosed in the Notes to the Financial Statements of each sub-fund, where appropriate.

The sub-funds may be subject to short-term exposure to exchange rate movements, for instance where the date of an investment purchase and the date when the settlement occurs are different. To reduce this risk the Investment Adviser will normally execute a foreign currency contract on the transaction date wherever practicable.

## Risk Disclosures cont.

The sub-funds may receive revenue in currencies other than sterling and hence movements in exchange rates can affect the sterling value of this revenue. To minimise this risk arrangements are in place to convert all revenue receipts to sterling on, or shortly after, the date of receipt.

### *Interest rate risk*

The sub-funds are subject to interest rate risk because bond yields are linked to underlying bank rates or equivalents. Disclosure on the interest rate risk profile, weighted average interest rate and weighted average maturity of the sub-funds are contained in the Notes to the Financial Statements of each sub-fund.

### *Other price risk*

Market price risk arises mainly from uncertainty about future prices of the financial instruments held. It represents the potential loss the sub-funds might suffer through holding market positions in the face of price movements.

### *Counterparty credit risk*

The Investment Adviser monitors both the creditworthiness of counterparties and the extent to which the counterparty risk is diversified. The organisations with whom derivative transactions are arranged are either top rated institutions themselves or subsidiaries of such institutions. The aim is to strike a balance between spreading counterparty risk amongst a number of institutions and keeping costs low by achieving economies of scale.

Stock settlement is normally on a delivery versus payment (DVP) basis where the payment for stock is due at the time of delivery. Where stock settlement is not on a DVP basis, additional procedures are in place and approvals required to manage the settlement risks that may arise.

### *Liquidity risk*

The sub-funds' assets mainly consist of readily realisable securities. This enables the payment of any investor redemptions without unbalancing the portfolio. During the year, there have been no new arrangements put in place for managing the liquidity of the sub-funds with no assets subject to special arrangements.

### *Operational risk*

Failure of Baillie Gifford's accounting systems or those of other third party service providers could lead to an inability to provide accurate reporting and monitoring or a misappropriation of assets. Baillie Gifford have a comprehensive business continuity plan which facilitates continued operation of the business in the event of a service disruption or major disaster. The ACD reviews Baillie Gifford & Co's report on internal controls and the reports by other key third party providers.

### **Fair values**

The financial assets and liabilities of the sub-funds are included in the valuation at market value. These values have been determined by reference to prices available from the markets on which the instruments are traded.



# Remuneration Report

Baillie Gifford & Co ('Baillie Gifford') maintains a Remuneration Policy (the 'Policy') which applies to group companies, including Baillie Gifford & Co Limited (the 'Company'), which is the group's sole UCITS management company for the range of UCITS operated within the group. The Policy was adopted as at 18 March 2016 by the Board of the Company. The Policy is subject to review on at least an annual basis by the Management Committee of Baillie Gifford and the Board of the Company. It was updated in May 2018, no material changes were made.

## *Application of the UCITS Remuneration Code*

The Company is required to identify individuals whose professional activities have a material impact on the risk profiles of the UCITS it manages (known as 'Code Staff'), and the UCITS Remuneration Code requirements and disclosures apply to those individuals. The list of Code Staff compiled by the Company principally covers governance and control functions.

The Company delegates portfolio management and certain administration roles to other entities, namely its parent Baillie Gifford and another affiliate Baillie Gifford Overseas Limited. These delegates are not required to comply with the UCITS Remuneration Code as they are subject to regulatory requirements on remuneration that are considered equally as effective as those applicable under the UCITS Remuneration Code.

## *General Principles of the UCITS Remuneration Code*

The Company endeavours to reward staff fairly and appropriately for their contribution towards the success of the business and the level of service and performance delivered to its clients. The Policy is designed to be consistent with and promote sound and effective risk management and should not encourage risk-taking which is inconsistent with the risk profiles of the UCITS it manages. It is designed to be in line with the Company's strategy, objectives, values and long-term interests, its UCITS and investors in such UCITS. The Policy has been designed to avoid conflicts of interest and is subject to independent internal review by the Compliance and Business Risk functions. In order to achieve this, the remuneration of staff is reviewed annually, taking into account individual performance and market practice for the role being undertaken.

## *Governance of Remuneration*

Baillie Gifford's Remuneration Policy is overseen by the group's Remuneration Committee. The Remuneration Committee in turn reports to the management body of Baillie Gifford, the Management Committee. The Board of the Company also oversees adherence to the UCITS Remuneration Code.

## *Salary/Bonus Review Process*

In terms of the Baillie Gifford group salary review process, the level of salary awarded is influenced by individual performance, the profitability and performance of the firm and the movement in salary levels for the relevant job match within independent survey data utilised by Baillie Gifford. This information is collated and analysed by the Human Resources Department, who submit recommendations on salary awards for each individual member of staff to the Remuneration Committee. The Remuneration Committee may adjust salary awards according to the information provided which will include input from the Compliance, Business Risk and Internal Audit functions on any relevant risk and compliance concerns.

The Management Committee then finalises and authorises the annual salary awards for all staff, and specifically the remuneration of senior officers in the risk management (Business Risk) and Compliance functions.

In terms of variable remuneration, there are currently three separate bonus schemes in operation within the group for specific business areas and within each scheme there are four levels of maximum potential bonus. Maximum levels have been established for each scheme and the levels of maximum potential bonus will vary according to the group's profitability. Within these maximum limits, performance for determining the actual levels of bonus awarded is measured at both an individual and a team level. The Policy is also designed to ensure that fixed and variable components of total remuneration are appropriately balanced.

The amounts available for variable remuneration are subject to an overall risk adjustment and individual awards can be adjusted via the annual appraisal process with input from the Business Risk and Compliance functions.

Ratings for individual performance are determined, following discussion with the individual, as part of the firm's annual appraisal process which considers both the completion of annual objectives and the level of competence an individual has demonstrated in the role, including integrity. The methods used to determine team performance vary according to the business area that the scheme covers.

## Remuneration Report cont.

With effect from 1 January 2015, Baillie Gifford introduced a deferral of a proportion of variable pay for all bonus scheme participants including Code Staff. The proportions deferred vary between 20% and 40% of variable remuneration depending upon scheme level. The deferral period will be for three years and will vest on a pro-rata basis with a retention period of six months thereafter. The proportion of variable remuneration which is deferred will be held in shares in a selection of Baillie Gifford collective investment schemes (and for a small number of individuals an element of the cash bonus will also be paid in shares). Deferred amounts of variable remuneration are also subject to malus provisions where Baillie Gifford has the ability to reduce or withdraw the value of unvested awards prior to vesting in exceptional circumstances.

Further information with respect to the Policy is available at [www.bailliegifford.com](http://www.bailliegifford.com).

	Headcount	Total Remuneration <sup>1</sup> £'000
<b>Baillie Gifford &amp; Co Limited</b>		
Fixed remuneration	29	810
Variable remuneration	29	640
<b>Baillie Gifford &amp; Co Limited Remuneration Code Staff<sup>2</sup></b>		
Total remuneration	18	1330

This remuneration disclosure has been provided at the level of Baillie Gifford & Co Limited as authorised fund manager of UCITS, as at 31 March 2018. Remuneration information at an individual AIF or UCITS level is not readily available.

<sup>1</sup>The total remuneration is the proportion of overall remuneration for Staff as it relates to the time spent on UCITS related activity for Baillie Gifford & Co Limited.

<sup>2</sup>All Code Staff are senior managers or staff engaged in control functions of Baillie Gifford & Co Limited and therefore a breakdown of remuneration between senior management and other risk takers is not applicable.

# BAILLIE GIFFORD

## Baillie Gifford Active Gilt Plus Fund

a sub-fund of Baillie Gifford Bond Funds ICVC

*Annual Report and Financial Statements  
for the year ended 30 September 2018*



# Baillie Gifford Active Gilt Plus Fund

## Investment Objective

The Fund aims to produce a total return, through combined capital growth and income payment, before charges, that is on average 1.5% greater than the total return of the FTSE Actuaries UK Conventional Gilts All Stocks Index.

## Investment Policy

To invest mainly in UK government bonds. Currency forwards and derivatives, which are types of financial contracts, are used to protect or enhance the return of the Fund, including for investment purposes. The Fund is exposed to foreign currencies. We will assess performance of the Fund compared to the index over rolling three year periods. There is no guarantee that a positive return will be achieved over rolling three year periods or any time period.

## 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 UK government bonds which generally provide higher rewards and higher risks than other investments such as cash.

The indicator does not take into account the following relevant material risks:

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.

The Fund has exposure to foreign currencies and changes in the rates of exchange will cause the value of any investment, and income from it, to fall as well as rise and you may not get back the amount invested.

Custody of assets involves a risk of loss if the custodian becomes insolvent or breaches duties of care.

Bonds issued by companies and governments may be adversely affected by changes in interest rates, expectations of inflation and a decline in the creditworthiness of the bond issuer. The issuers of bonds in which the Fund invests may not be able to pay the bond income as promised or could fail to repay the capital amount.

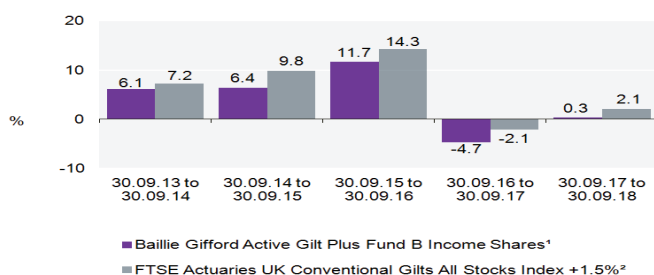
Derivatives may be used to obtain, increase or reduce exposure to assets and may result in the Fund being leveraged. This may result in greater movements (down or up) in the price of shares in the Fund. It is not our intention that the use of derivatives will significantly alter the overall risk profile of the Fund.

The result of the UK Referendum on membership of the European Union introduces elements of political uncertainty and may have practical consequences for the Fund. Developments will be closely monitored.

Further details of the risks associated with investing in the Fund can be found in the Prospectus which is available by contacting Client Relations or visiting our website.

# Investment Report

## Past Performance<sup>1</sup>



The performance figures shown in this graph are for Class B Income Shares. Performance figures reflect the ACD's annual fee of 0.35%, but exclude any initial charge paid. Please note these returns differ from the returns quoted 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 contacting Client Relations. You should be aware that past performance is not a guide to future performance.

For the year to 30 September 2018 the return on B Income Shares was 0.2%<sup>3</sup>, compared to the return on the FTSE Actuaries UK Conventional Gilts All Stocks Index +1.5% of 2.1%<sup>2</sup>. The modest absolute return was driven by a slight increase in bond yields being offset by coupon income. The Fund benefited from its underweight positions in government bonds as the US Federal Reserve continued to raise interest rates at a faster pace than that expected by the market which caused bond prices globally to fall. On the other hand, the Fund's relative underperformance versus the Index over the 12 months stemmed from its positive stance on emerging market currencies, which performed poorly after President Trump's plans to adjust US tariffs on trade increased in scope and magnitude.

Expectations of continuing synchronised global growth during the first half of the investment period supported export and commodity-focused countries whilst the monetary policy stances of the major central banks remained very accommodative. The Fund's overweight positions in the currencies of Brazil, Malaysia and Russia performed well during this period. The announcement in November of wide-ranging US personal and corporate tax cuts caused bond prices to weaken globally. This did however, support US growth and, given continuing low inflation, this helped to calm market nervousness about potential interest rate rises.

Concerns about US trade policy, as President Trump's threats to withdraw from NAFTA intensified and the imposition of more punitive tariffs on Chinese products, soured sentiment towards exporting countries over the summer. These, combined with localised confidence crises in Turkey and Argentina caused a sharp increase in market volatility and falls in emerging market asset prices. Electoral uncertainty in Brazil, as the two-horse race narrowed between the hard left and hard right candidates, dealt emerging market sentiment another blow, and the Fund's overweight positions in the currencies of Argentina and Brazil detracted from performance. Markets remain nervous as the US Federal Reserve looks set to carry on with its interest rate raising intentions, and the Fund no longer holds any exposure to emerging markets.

Strong economic growth in Norway, as a result of higher oil prices, lifted domestic investment and wages and benefited the Fund's overweight position in the Norwegian krone, which continues to contribute to Fund performance. Indications from Japan that the local economy may be growing quickly enough and that inflation is becoming more sustainable have driven hopes that the central bank will start to remove stimulus, and this has helped Fund performance through its underweight position in Japanese bonds.

<sup>1</sup>Source: FE, 10am dealing prices, income reinvested, after charges. <sup>2</sup>Source: FE and relevant underlying index provider, total return. Please see Disclaimer on page 296. <sup>3</sup>Source: Baillie Gifford & Co Limited, closing mid prices, income reinvested, after charges. You should be aware that past performance is not a guide to future performance.

## Investment Report cont.

In the UK, the government's failure thus far to reach agreement with the EU on likely future trading arrangements has caused the pound and gilts to fluctuate without settling on any clear direction, whilst the Bank of England has signalled that it will most likely continue to raise interest rates despite economic activity being somewhat disappointing. The Fund's underweight position in gilts has contributed positively to performance, and is maintained in the expectation that yields will ultimately settle at a higher level once a late Brexit compromise is reached.

*Baillie Gifford & Co, 24 October 2018*



## Principal Bond Holdings as at 30 September 2018

Investment	Percentage of total Fund
UK Treasury 4.25% 7/12/2055	12.58
UK Treasury 4.25% 07/12/2049	11.60
UK Treasury 4.75% 07/12/2038	9.15
UK Treasury 2% 22/07/2020	8.84
UK Treasury 4.25% 07/03/2036	7.25
UK Treasury 4.25% 07/12/2027	7.20
UK Treasury 3.25% 22/01/2044	5.59
UK Treasury 4.25% 07/06/2032	4.88
UK Treasury 2% 07/09/2025	4.33
UK Treasury 1.5% 22/01/2021	4.26

## Material Portfolio Changes for the year ended 30 September 2018

Largest Purchases	Cost £'000	Largest Sales	Proceeds £'000
UK T Bill 30/07/2018	2,195	UK Treasury 1.75% 22/07/2019	2,203
South Africa 8.25% 31/03/2032	1,323	UK T Bill 30/07/2018	2,197
UK Treasury 0.75% 22/07/2023	952	UK Treasury 5% 07/03/2018	1,971
UK Treasury 4% 07/03/2022	824	UK Treasury 4.25% 07/06/2032	1,589
UK T Bill 29/10/2018	649	South Africa 8.25% 31/03/2032	1,191
UK Treasury 4.25% 07/03/2036	483	UK Treasury 4.25% 07/12/2049	1,146
UK Treasury 2% 22/07/2020	476	South Africa 8.75% 31/01/2044	1,143
UK Treasury 4.25% 07/06/2032	474	UK Treasury 4.25% 7/12/2055	1,065
UK Treasury 4.25% 7/12/2055	468	UK Treasury 2% 07/09/2025	1,063
New Zealand 2.5% IL 20/09/2035	467	UK Treasury 4.75% 07/12/2038	712

The largest purchases and sales of bonds have been shown.

# Portfolio Statement as at 30 September 2018

Stock description	Holding	Market value £'000	% of total net assets
<b>Fixed Income - 98.26% (96.43%)</b>			
<b>Sovereign Bonds - 98.26% (96.43%)</b>			
<b>Overseas Government Bonds - 7.12% (9.76%)</b>			
Australia 3% 21/03/2047	414,000	223	0.94
Mexico IL 4% 15/11/2040	19,300	496	2.08
New Zealand 2.5% IL 20/09/2035	800,000	477	2.00
US Treasury 3% 15/11/2045	677,000	500	2.10
<b>UK Government Bond - 91.14% (86.67%)</b>			
UK T Bill 29/10/2018	650,000	650	2.73
UK Treasury 0.75% 22/07/2023	692,200	679	2.85
UK Treasury 1.5% 22/01/2021	999,100	1,014	4.26
UK Treasury 1.75% 07/09/2022	795,000	816	3.42
UK Treasury 2% 07/09/2025	985,700	1,032	4.33
UK Treasury 2% 22/07/2020	2,064,000	2,107	8.84
UK Treasury 2.75% 07/09/2024	221,200	240	1.01
UK Treasury 3.25% 22/01/2044	1,056,200	1,331	5.59
UK Treasury 4% 07/03/2022	864,235	953	4.00
UK Treasury 4.25% 07/03/2036	1,270,600	1,727	7.25
UK Treasury 4.25% 07/06/2032	890,500	1,164	4.88
UK Treasury 4.25% 07/12/2027	1,382,811	1,716	7.20
UK Treasury 4.25% 07/12/2049	1,782,223	2,764	11.60
UK Treasury 4.25% 7/12/2055	1,820,086	2,997	12.58
UK Treasury 4.75% 07/12/2030	256,900	345	1.45
UK Treasury 4.75% 07/12/2038	1,470,131	2,181	9.15
<b>Derivatives - 0.61% (0.65%)</b>			
Forward currency contracts (see Table 1)		16	0.07
Futures contracts (see Table 2)		-	0.00

## Portfolio Statement as at 30 September 2018 cont.

Stock description	Holding	Market value £'000	% of total net assets
Interest rate swap contracts (see Table 3)		128	0.54
<b>Portfolio of investments</b>		<b>23,556</b>	<b>98.87</b>
<b>Net other assets - 1.13% (2.92%)</b>		<b>270</b>	<b>1.13</b>
<b>Net assets</b>		<b>23,826</b>	<b>100.00</b>

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

Unless otherwise stated the above holdings are in fixed interest securities.

Figures in brackets in the investment category headings refer to 30 September 2017.

**Table 1: Unrealised gains/(losses) on open forward currency contracts**

Counterparty	Settlement	Buy	Buy Amount	Sell	Sell Amount	Unrealised gains/(losses) £'000	% of total net assets
Deutsche Bank	25/10/18	NOK	5,520,000	GBP	510,615	9	0.04
Deutsche Bank	29/11/18	GBP	1,020,448	EUR	1,137,000	5	0.02
Deutsche Bank	29/11/18	GBP	237,510	USD	310,000	1	0.01
HSBC	25/10/18	GBP	447,080	EUR	498,000	3	0.01
HSBC	25/10/18	NOK	5,000,000	GBP	462,514	8	0.03
HSBC	29/11/18	GBP	415,718	USD	542,600	1	0.00
JP Morgan Chase	22/11/18	GBP	439,286	MXN	10,835,000	-	0.00
JP Morgan Chase	29/11/18	GBP	338,643	USD	442,000	1	0.00
JP Morgan Chase	20/12/18	CHF	606,000	GBP	482,206	(5)	(0.02)
National Australia Bank	15/11/18	AUD	886,000	GBP	491,963	(1)	0.00
National Australia Bank	29/11/18	GBP	479,400	CAD	818,000	(5)	(0.02)
National Australia Bank	16/05/19	GBP	469,632	NZD	920,000	6	0.03
Royal Bank of Canada	01/11/18	JPY	59,750,000	GBP	411,368	(8)	(0.03)
Royal Bank of Canada	29/11/18	GBP	255,361	USD	333,300	1	0.00
Unrealised gains/(losses) on open forward currency contracts						16	0.07

## Portfolio Statement as at 30 September 2018 cont.

Table 2: Unrealised gains/(losses) on futures contracts

Futures	Maturity	Notional	Unrealised gains/(losses) £'000	% of total net assets
Long Gilt Future 10 Year December 2018	31/12/18	6	-	0.00
US Ultra 10 Year Note Future December 2018	31/12/18	5	-	0.00
Unrealised gains/(losses) on futures contracts			-	0.00

Table 3: Unrealised gains/(losses) on open interest rate swap contracts

Counterparty	Ccy	Termination	Notional	Fund pays	Fund receives	Unrealised gains/(losses) £'000	% of total net assets
Barclays	EUR	09/12/19	10,800,000	Euribor 6 Month	-0.0755%	17	0.07
Barclays	EUR	08/06/21	2,915,000	-0.015%	Euribor 6 Month	2	0.01
Barclays	GBP	14/09/20	1,430,000	LIBOR 6 Month	0.819%	(9)	(0.04)
Barclays	GBP	14/09/22	805,000	LIBOR 6 Month	0.881%	(15)	(0.06)
Barclays	GBP	20/02/23	1,445,000	LIBOR 6 Month	1.3908%	-	0.00
Barclays	JPY	31/08/46	71,000,000	0.397%	JPY LIBOR 6 Month	62	0.26
Deutsche Bank	KRW	08/05/37	710,000,000	1.970%	KRW Certificate of Deposit 3 Month	17	0.07
HSBC	EUR	27/11/24	875,000	Euribor 6 Month	0.4677%	(4)	(0.02)
JP Morgan	NZD	29/06/23	2,400,000	2.6175%	New Zealand Bank Bill 3 Month FRA	(14)	(0.06)
JP Morgan	USD	22/01/23	3,450,000	USD LIBOR 3 Month	2.4632%	(63)	(0.26)
JP Morgan Chase	GBP	29/11/47	700,000	1.5582%	LIBOR 6 Month	30	0.13
Merrill Lynch	EUR	27/11/24	1,750,000	0.4677%	Euribor 6 Month	8	0.03
Merrill Lynch	MXN	15/12/20	33,000,000	Mexico Interbank TIIE 28 Day	7.850%	(2)	(0.01)
Merrill Lynch	MXN	09/06/22	38,150,000	Mexico Interbank TIIE 28 Day	7.005%	(44)	(0.18)
Merrill Lynch	USD	22/01/23	7,900,000	2.4632%	USD LIBOR 3 Month	143	0.60
Unrealised gains/(losses) on open interest rate swap contracts						128	0.54

# Comparative Tables

## Comparative Table: A Accumulation Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	244.14	254.37	231.10
Return before operating charges*	1.52	(7.62)	26.07
Operating charges	(2.63)	(2.57)	(2.47)
Return after operating charges*	(1.11)	(10.19)	23.60
Distributions	(1.62)	(1.25)	(1.65)
Retained distributions on accumulation shares	1.62	1.21	1.32
<b>Closing net asset value per share</b>	<b>243.03</b>	<b>244.14</b>	<b>254.37</b>
*After direct transaction costs of:	0.00	0.00	0.00
<b>Performance:</b>			
Return after charges	(0.45)%	(4.02)%	10.07%
<b>Other Information:</b>			
Closing net asset value (£'000)	462	558	717
Closing number of shares	190,071	228,520	281,882
Operating charges	1.07% <sup>1</sup>	1.04%	1.04%
Direct transaction costs <sup>2</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	250.1	256.3	262.5
Lowest share price (pence)	240.9	238.8	224.4



## Comparative Tables cont.

### Comparative Table: A Income Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	163.47	171.14	156.30
Return before operating charges*	1.02	(5.12)	17.68
Operating charges	(1.76)	(1.72)	(1.71)
Return after operating charges*	(0.74)	(6.84)	15.97
Distributions on income shares	(1.08)	(0.83)	(1.13)
<b>Closing net asset value per share</b>	<b>161.65</b>	<b>163.47</b>	<b>171.14</b>
*After direct transaction costs of:			
	0.00	0.00	0.00
<b>Performance:</b>			
Return after charges	(0.45)%	(4.01)%	10.07%
<b>Other Information:</b>			
Closing net asset value (£'000)	96	104	123
Closing number of shares	59,473	63,784	71,846
Operating charges	1.07% <sup>1</sup>	1.04%	1.02%
Direct transaction costs <sup>2</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	167.1	172.5	176.9
Lowest share price (pence)	161.2	160.7	151.8

## Comparative Tables cont.

### Comparative Table: B Accumulation Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	253.52	262.50	237.20
Return before operating charges*	1.55	(7.87)	26.92
Operating charges	(1.07)	(1.00)	(0.96)
Return after operating charges*	0.48	(8.87)	25.96
Distributions	(3.34)	(2.94)	(3.30)
Retained distributions on accumulation shares	3.34	2.83	2.64
<b>Closing net asset value per share</b>	<b>254.00</b>	<b>253.52</b>	<b>262.50</b>
*After direct transaction costs of:	0.00	0.00	0.00
<b>Performance:</b>			
Return after charges	0.19%	(3.42)%	10.67%
<b>Other Information:</b>			
Closing net asset value (£'000)	7,427	10,515	5,928
Closing number of shares	2,923,941	4,147,866	2,258,176
Operating charges	0.42% <sup>3</sup>	0.39%	0.39%
Direct transaction costs <sup>2</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	260.5	264.5	270.8
Lowest share price (pence)	250.8	246.7	230.5

## Comparative Tables cont.

### Comparative Table: B Income Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	163.40	171.08	156.20
Return before operating charges*	1.02	(5.11)	17.67
Operating charges	(0.69)	(0.65)	(0.63)
Return after operating charges*	0.33	(5.76)	17.04
Distributions on income shares	(2.14)	(1.92)	(2.16)
<b>Closing net asset value per share</b>	<b>161.59</b>	<b>163.40</b>	<b>171.08</b>
 *After direct transaction costs of:	 0.00	 0.00	 0.00
<b>Performance:</b>			
Return after charges	0.20%	(3.41)%	10.64%
<b>Other Information:</b>			
Closing net asset value (£'000)	7,354	6,990	8,545
Closing number of shares	4,551,010	4,277,497	4,994,376
Operating charges	0.42% <sup>3</sup>	0.39%	0.39%
Direct transaction costs <sup>2</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	167.4	172.4	177.0
Lowest share price (pence)	161.2	160.8	151.8

## Comparative Tables cont.

### Comparative Table: C Accumulation Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	249.15	256.96	230.70
Return before operating charges*	0.84	(7.71)	26.33
Operating charges	(0.15)	(0.10)	(0.07)
Return after operating charges*	0.69	(7.81)	26.26
Distributions	(3.97)	(3.76)	(4.06)
Retained distributions on accumulation shares	3.97	3.76	4.06
<b>Closing net asset value per share</b>	<b>249.84</b>	<b>249.15</b>	<b>256.96</b>
*After direct transaction costs of:	0.00	0.00	0.00
<b>Performance:</b>			
Return after charges	0.28%	(3.04)%	11.38%
<b>Other Information:</b>			
Closing net asset value (£'000)	1	10,951	77,063
Closing number of shares	300	4,395,278	29,990,025
Operating charges	0.06%	0.04%	0.03%
Direct transaction costs <sup>2</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	256.5	259.0	264.9
Lowest share price (pence)	246.8	241.8	224.4

## Comparative Tables cont.

### Comparative Table: C Income Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	163.48	171.16	156.30
Return before operating charges*	1.02	(5.12)	17.66
Operating charges	(0.12)	(0.07)	(0.06)
Return after operating charges*	0.90	(5.19)	17.60
Distributions on income shares	(2.73)	(2.49)	(2.74)
<b>Closing net asset value per share</b>	<b>161.65</b>	<b>163.48</b>	<b>171.16</b>
 *After direct transaction costs of:	 0.00	 0.00	 0.00
<b>Performance:</b>			
Return after charges	0.55%	(3.09)%	10.91%
<b>Other Information:</b>			
Closing net asset value (£'000)	3,941	3,986	4,173
Closing number of shares	2,437,998	2,437,998	2,437,998
Operating charges	0.07%	0.04%	0.04%
Direct transaction costs <sup>2</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	167.6	172.5	177.2
Lowest share price (pence)	161.4	161.0	151.9

## Comparative Tables cont.

### Comparative Table: G Accumulation Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Period Ended 30 September 2017 (pence per share)
<b>Change in net assets per share:</b>		
Opening net asset value per share	251.13	259.80 <sup>4</sup>
Return before operating charges*	1.57	(7.94)
Operating charges	(0.84)	(0.73)
Return after operating charges*	0.73	(8.67)
Distributions	(3.57)	(3.14)
Retained distributions on accumulation shares	3.57	3.14
<b>Closing net asset value per share</b>	<b>251.86</b>	<b>251.13</b>
*After direct transaction costs of:	0.00	0.00
<b>Performance:</b>		
Return after charges	0.29%	(3.34)%
<b>Other Information:</b>		
Closing net asset value (£'000)	4,545	2,171
Closing number of shares	1,804,336	864,615
Operating charges	0.33% <sup>5</sup>	0.29%
Direct transaction costs <sup>2</sup>	0.00%	0.00%
<b>Prices:</b>		
Highest share price (pence)	258.3	261.7
Lowest share price (pence)	248.5	244.4

<sup>1</sup>With effect from 1 November 2018 the ACD's annual fee for Class A Shares decreased from 1.00% to 0.80%. As at 30 September 2018, the ACD considered 0.87% to be a more indicative rate for the ongoing charges figure.

<sup>2</sup>The Fund incurs broker commission and transfer taxes/stamp duty as a necessary part of buying and selling the Fund's underlying investments in order to achieve the investment objective. Commission is also payable to the counterparty on the trading of future contracts.

A dilution adjustment is made whenever dealings in the shares of the Fund result in shares being issued or cancelled by the Company. The adjustment will take account of any spread between the buying and selling prices of the Fund's investments and the costs (which may include dealing charges and taxes) of acquiring or disposing of such investments. Please note that the direct transaction cost disclosures above do not include the dilution adjustment charges. For further details on dilution adjustment charges please see the General Information section.

<sup>3</sup>With effect from 1 November 2018 the ACD's annual fee for Class B Shares decreased from 0.35% to 0.15%. As at 30 September 2018, the ACD considered 0.22% to be a more indicative rate for the ongoing charges figure.

<sup>4</sup>Class G Accumulation Shares were launched on 3 October 2016.

<sup>5</sup>With effect from 1 November 2018 the ACD's annual fee for Class G Shares decreased from 0.25% to 0.15%. As at 30 September 2018, the ACD considered 0.22% to be a more indicative rate for the ongoing charges figure.



# Financial Statements

## Statement of Total Return for the year ended 30 September 2018

		2018		2017	
	Notes	£'000	£'000	£'000	£'000
Income					
Net capital gains/(losses)	1		(169)		(2,994)
Revenue	3	485		1,298	
Expenses	4	(84)		(99)	
Net revenue before taxation		401		1,199	
Taxation	5	-		-	
Net revenue after taxation			401		1,199
Total return before distributions			232		(1,795)
Distributions	6		(401)		(1,199)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>(169)</b>		<b>(2,994)</b>

## Statement of Change in Net Assets Attributable to Shareholders for the year ended 30 September 2018

	2018		2017	
	£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>		<b>35,275</b>		<b>97,847</b>
Amounts receivable on issue of shares	2,428		9,207	
Amounts payable on cancellation of shares	(13,939)		(69,683)	
		(11,511)		(60,476)
Dilution adjustment		15		101
Change in net assets attributable to shareholders from investment activities		(169)		(2,994)
Retained distributions on accumulation shares		216		797
<b>Closing net assets attributable to shareholders</b>		<b>23,826</b>		<b>35,275</b>

## Financial Statements cont.

### Balance Sheet as at 30 September 2018

	Notes	2018 £'000	2017 £'000
<b>Assets:</b>			
Fixed assets:			
Investments	13	23,726	34,467
Current assets:			
Debtors	8	234	584
Cash and bank balances	9	428	969
<b>Total assets</b>		<b>24,388</b>	<b>36,020</b>
<b>Liabilities:</b>			
Investment liabilities	13	(170)	(221)
Creditors:			
Bank overdrafts	9	(22)	(164)
Distributions payable		(73)	(69)
Other creditors	10	(297)	(291)
<b>Total liabilities</b>		<b>(562)</b>	<b>(745)</b>
<b>Net assets attributable to shareholders</b>		<b>23,826</b>	<b>35,275</b>

# Notes to the Financial Statements

## 1 Net capital gains/(losses)

	2018	2017
	£'000	£'000
Non-derivative securities	(241)	(3,258)
Derivative contracts	184	(401)
Forward currency contracts	(61)	665
Currency gains/(losses)	(50)	1
Transaction costs	(1)	(1)
<b>Net capital gains/(losses)</b>	<b>(169)</b>	<b>(2,994)</b>

## 2 Purchases, sales and transaction costs

	2018	2017
	£'000	£'000
<b>Purchases and transaction costs</b>		
Gross purchases of bonds excluding transaction costs <sup>1</sup>	9,424	27,285
<b>Purchases including transaction costs</b>	<b>9,424</b>	<b>27,285</b>

<sup>1</sup>There were no transaction costs on the purchase of bonds.

	2018	2017
	£'000	£'000
<b>Sales and transaction costs</b>		
Gross sales of bonds excluding transaction costs <sup>1</sup>	19,550	84,807
<b>Sales net of transaction costs</b>	<b>19,550</b>	<b>84,807</b>

<sup>1</sup>There were no transaction costs on the sale of bonds.

	2018	2017
	£'000	£'000
<b>Transaction cost on derivative contracts</b>		
Commission on trading futures contracts	-	2

## Notes to the Financial Statements cont.

### 2 Purchases, sales and transaction costs (continued)

	2018		2017	
	£'000	% of average NAV	£'000	% of average NAV
<b>Portfolio transaction costs</b>				
Commissions	-	0.00	2	0.00
Taxes	-	0.00	-	0.00
<b>Total direct transaction costs</b>	<b>-</b>	<b>0.00</b>	<b>2</b>	<b>0.00</b>

	2018	2017
	%	%
Average portfolio dealing spread	0.02	0.02

The Fund incurs broker commission and transfer taxes/stamp duty as a necessary part of buying and selling the Fund's underlying investments in order to achieve the investment objective. Commission is also payable to the counterparty on the trading of futures contracts.

Dilution adjustment charges, which do not form part of the direct transaction costs disclosures above, may be incurred as a result of trading in underlying funds. For further details on dilution adjustment charges please see the General Information section.

Dealing spread is the difference in the buying and selling prices of the underlying investments. Dealing spreads vary considerably depending on the transaction value and market sentiment. The Fund may have holdings in single priced funds. The notional spread on these holdings is not included in the average dealing spread calculated for this Fund.

### 3 Revenue

	2018	2017
	£'000	£'000
Interest on debt securities	514	1,420
Bank interest	1	1
Swaps interest	(30)	(123)
<b>Total revenue</b>	<b>485</b>	<b>1,298</b>

## Notes to the Financial Statements cont.

### 4 Expenses

	2018 £'000	2017 £'000
<b>Payable to the ACD, associates of the ACD and agents of either of them:</b>		
ACD's periodic charge	65	70
<b>Payable to the Depositary, associates of the Depositary and agents of either of them:</b>		
Depositary's fee	5	10
Bank charges	1	3
	6	13
<b>Other expenses:</b>		
Audit fee	7	8
Professional fees	6	8
	13	16
<b>Total expenses</b>	<b>84</b>	<b>99</b>

### 5 Taxation

	2018 £'000	2017 £'000
<b>Analysis of charge in the year</b>		
Corporation tax	-	-
<b>Total taxation</b>	<b>-</b>	<b>-</b>

The Fund is subject to corporation tax at 20% (2017: 20%), however, the Fund is a bond fund making interest distributions and the interest distributions made by the Fund are allowable in arriving at the amount of revenue liable to tax. As a result, this has reduced the corporation tax liability of the Fund to nil.

The deduction of the interest distribution has been restricted to reflect the priority utilisation of the management expenses incurred by the Fund in the year, as per regulation 13(1A) of SI 2006/964. This results in no excess management expenses or interest distribution being carried forward.

The tax charge is explained as follows:

	2018 £'000	2017 £'000
Net revenue/(expense) before taxation	401	1,199
Net revenue before taxation multiplied by the standard rate of corporation tax of 20% (2017: 20%)	80	240
Effects of:		
Interest distributions	(80)	(240)
<b>Total taxation</b>	<b>-</b>	<b>-</b>

## Notes to the Financial Statements cont.

### 6 Distributions

	2018	2017
	£'000	£'000
Interim to 31 December	84	269
Interim to 31 March	83	236
Interim to 30 June	57	236
Final to 30 September	152	208
	<b>376</b>	<b>949</b>
Amounts deducted on cancellation of shares	39	273
Amounts added on issue of shares	(14)	(23)
<b>Total distributions</b>	<b>401</b>	<b>1,199</b>

The distributions take account of revenue transactions on the issue and cancellation of shares. Details of the distributions per share are set out in the Distribution Tables.

### 7 Reconciliation of net revenue to net distributions for the year

	2018	2017
	£'000	£'000
Net revenue after taxation for the year	401	1,199
<b>Net distributions for the year</b>	<b>401</b>	<b>1,199</b>

### 8 Debtors

	2018	2017
	£'000	£'000
Receivable for issue of shares	5	27
Sales awaiting settlement	81	207
Accrued income	126	176
Collateral held by counterparties	-	170
Amounts due from clearing brokers	22	4
<b>Total debtors</b>	<b>234</b>	<b>584</b>

## Notes to the Financial Statements cont.

### 9 Cash and bank balances

	2018	2017
	£'000	£'000
Sterling amounts held at clearing houses and brokers	42	58
Foreign amounts held at clearing houses and brokers	13	12
Sterling bank accounts	373	899
	428	969
Sterling amounts held at clearing houses and brokers overdrawn	-	(10)
Foreign amounts held at clearing houses and brokers overdrawn	(22)	-
Sterling bank accounts overdrawn	-	(154)
<b>Total cash and bank balances</b>	<b>406</b>	<b>805</b>

### 10 Other creditors

	2018	2017
	£'000	£'000
Payable for cancellation of shares	17	-
Purchases awaiting settlement	3	103
Due to the ACD or associates	5	6
Due to the Depositary or associates	1	2
Collateral held on behalf of counterparty	155	155
Amounts due to clearing broker	103	12
Other accrued expenses	13	13
<b>Total other creditors</b>	<b>297</b>	<b>291</b>

### 11 Related party transactions

Baillie Gifford & Co Limited, as ACD, is regarded as a related party by virtue of the services provided to the Company. Baillie Gifford & Co Limited acts as principal in respect of all transactions of shares in the Company, except where stocks are transferred on the issue or cancellation of shares. The aggregate monies received through issue and paid on cancellation are disclosed in the Statement of Change in Net Assets Attributable to Shareholders. Amounts receivable and payable on the issue and cancellation of shares have been disclosed in notes 8 and 10 respectively.

Amounts paid to Baillie Gifford & Co Limited in respect of ACD fees are disclosed in note 4 with amounts due at the year end given in note 10.

#### Shares held by the ACD and associates of the ACD

The shares held by the ACD and associates of the ACD as a percentage of the Fund's NAV were:

	2018	2017
	%	%
ACD and associates of the ACD	0.00	31.04



## Notes to the Financial Statements cont.

### 12 Reconciliation of shares in issue

	2018						
	A Accumulation Shares	A Income Shares	B Accumulation Shares	B Income Shares	C Accumulation Shares	C Income Shares	G Accumulation Shares
Opening shares in issue	228,520	63,784	4,147,866	4,277,497	4,395,278	2,437,998	864,615
Shares issued	11,231	7,963	640,835	454,749	-	-	-
Shares cancelled	(49,680)	(12,274)	(1,864,760)	(181,236)	(3,448,966)	-	-
Shares converted	-	-	-	-	(946,012)	-	939,721
<b>Closing shares in issue</b>	<b>190,071</b>	<b>59,473</b>	<b>2,923,941</b>	<b>4,551,010</b>	<b>300</b>	<b>2,437,998</b>	<b>1,804,336</b>

### 13 Basis of valuation

	2018		2017	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Level 1: Quoted prices	-	-	-	-
Level 2: Observable market data	23,726	(170)	34,467	(221)
Level 3: Unobservable data	-	-	-	-
<b>Total</b>	<b>23,726</b>	<b>(170)</b>	<b>34,467</b>	<b>(221)</b>

### 14 Credit ratings

Rating Block	2018		2017	
	Market value £'000	Percentage of total Fund	Market value £'000	Percentage of total Fund
Investment Grade	23,412	98.26	34,016	96.43
Total Bonds - Direct	23,412	98.26	34,016	96.43
Other	414	1.74	1,259	3.57
<b>Net Assets</b>	<b>23,826</b>	<b>100.00</b>	<b>35,275</b>	<b>100.00</b>

## Notes to the Financial Statements cont.

### 15 Derivatives and other financial instruments

#### Currency exposures

A substantial proportion of the net assets of the Fund are denominated in currencies other than sterling, with the effect that the balance sheet and total return can be significantly affected by currency movements.

Currency	Net foreign currency assets/(liabilities)			Net foreign currency assets/(liabilities)		
	2018			2017		
	Monetary exposures £'000	Non-monetary exposures £'000	Total £'000	Monetary exposures £'000	Non-monetary exposures £'000	Total £'000
Argentine peso	-	-	-	-	1,068	1,068
Australian dollar	-	713	713	-	(707)	(707)
Canadian dollar	-	(484)	(484)	-	(1,034)	(1,034)
Chilean peso	-	-	-	-	(1,051)	(1,051)
Colombian peso	-	-	-	-	(706)	(706)
Euro	3	(1,436)	(1,433)	-	(707)	(707)
Japanese yen	-	466	466	-	62	62
Malaysian ringgit	-	-	-	-	706	706
Mexican peso	-	11	11	-	717	717
New Zealand dollar	-	(1)	(1)	812	33,437	34,249
Norwegian krona	-	991	991	-	1,035	1,035
Peruvian nuevo sol	-	-	-	-	703	703
Russian ruble	-	-	-	-	708	708
South African rand	-	-	-	-	(30)	(30)
South Korean won	-	16	16	-	(684)	(684)
Swiss franc	-	478	478	-	-	-
Turkish lira	-	-	-	-	342	342
UK sterling	239	23,466	23,705	812	-	-
US dollar	(72)	(664)	(736)	12	385	397

Short term debtors and creditors have not been disclosed.

## Notes to the Financial Statements cont.

### 15 Derivatives and other financial instruments (continued)

#### Interest rate risk profile of financial assets and financial liabilities

The interest rate risk profile of the Fund was:

Currency	2018				2017			
	Floating Rate financial assets £'000	Fixed Rate financial assets £'000	Financial assets not carrying interest £'000	Total £'000	Floating Rate financial assets £'000	Fixed Rate financial assets £'000	Financial assets not carrying interest £'000	Total £'000
Argentine peso	-	-	-	-	-	-	1,068	1,068
Australian dollar	-	222	491	713	-	601	-	601
Euro	4,158	10,413	-	14,571	4,702	9,532	-	14,234
Japanese yen	479	-	404	883	795	2,302	-	3,097
Malaysian ringgit	-	-	-	-	-	-	706	706
Mexican peso	496	2,872	-	3,368	690	3,161	-	3,851
New Zealand dollar	1,719	-	-	1,719	-	-	-	-
Norwegian krona	-	-	991	991	-	-	1,035	1,035
Peruvian nuevo sol	-	-	-	-	-	-	703	703
Russian ruble	-	-	-	-	-	-	708	708
South African rand	-	-	-	-	-	1,113	-	1,113
South Korean won	491	-	-	491	765	-	-	765
Swiss franc	-	-	478	478	-	-	-	-
Turkish lira	-	-	-	-	-	-	342	342
UK sterling	1,115	25,371	4,103	30,589	1,130	32,795	7,573	41,498
US dollar	6,068	3,083	-	9,151	10,731	2,399	-	13,130

## Notes to the Financial Statements cont.

### 15 Derivatives and other financial instruments (continued)

Currency	2018				2017			
	Floating Rate financial liabilities £'000	Fixed Rate financial liabilities £'000	Financial liabilities not carrying interest £'000	Total £'000	Floating Rate financial liabilities £'000	Fixed Rate financial liabilities £'000	Financial liabilities not carrying interest £'000	Total £'000
Australian dollar	-	-	-	-	-	-	1,308	1,308
Canadian dollar	-	-	484	484	-	-	1,034	1,034
Chilean peso	-	-	-	-	-	-	1,051	1,051
Colombian peso	-	-	-	-	-	-	706	706
Euro	10,401	4,145	1,459	16,005	9,518	4,689	734	14,941
Japanese yen	-	418	-	418	2,334	700	-	3,034
Mexican peso	2,918	-	439	3,357	3,134	-	-	3,134
New Zealand dollar	22	1,235	464	1,720	-	-	-	-
South African rand	-	-	-	-	-	-	1,143	1,143
South Korean won	-	474	-	474	-	748	700	1,448
UK sterling	3,855	669	2,359	6,883	2,553	-	4,697	7,250
US dollar	2,728	5,914	1,244	9,886	1,384	10,667	692	12,743

## Notes to the Financial Statements cont.

### 15 Derivatives and other financial instruments (continued)

#### Fixed rate financial assets

	2018	2017
The weighted average interest rate of the fixed rate financial assets is:		
Australian dollar denominated	3.16%	3.60%
Euro denominated	0.04%	0.00%
Japanese yen denominated	n/a	0.06%
Mexican peso denominated	7.51%	6.94%
South African rand denominated	n/a	9.76%
UK sterling denominated	1.45%	1.29%
US dollar denominated	2.63%	2.37%

#### The weighted average maturity of the fixed rate financial assets is:

Australian dollar denominated	28.50 years	29.49 years
Euro denominated	1.57 years	2.19 years
Japanese yen denominated	n/a	8.42 years
Mexican peso denominated	3.00 years	4.70 years
South African rand denominated	n/a	26.36 years
UK sterling denominated	14.95 years	15.84 years
US dollar denominated	8.04 years	16.17 years

In addition the Fund may hold floating rate financial assets that comprise floating rate notes, index-linked government bonds, bank balances, collateral balances, the receive legs of interest rate swaps and the receive legs of inflation rate swaps, the returns on which are uncertain. The return on floating rate notes is dependent on certain factors which may include future interest rates, specific bond terms and price indices over the remaining life of the bonds. The return on index-linked bonds is dependent on changes in respective national price indices over the remaining life of the bonds. Bank balances bear interest at rates based on LIBOR or the foreign currency equivalent. Collateral held on the Fund's behalf by counterparties bears interest based on LIBOR or the foreign currency equivalent. The return on floating rate legs of interest rate swaps is dependent on the specific base rate against which the swap has been taken. The return on floating rate legs of inflation rate swaps is dependent on future inflation rates over the remaining life of the swaps.

## Notes to the Financial Statements cont.

### 15 Derivatives and other financial instruments (continued)

#### Fixed rate financial liabilities

	2018	2017
The weighted average interest rate of the fixed rate financial liabilities is:		
Euro denominated	0.18%	0.00%
Japanese yen denominated	0.46%	0.45%
New Zealand dollar denominated	2.59%	n/a
South Korean won denominated	2.04%	2.01%
UK sterling denominated	1.63%	n/a
US dollar denominated	2.52%	1.77%

The weighted average maturity of the fixed rate financial liabilities is:

Euro denominated	4.00 years	3.69 years
Japanese yen denominated	27.44 years	28.44 years
New Zealand dollar denominated	4.75 years	n/a
South Korean won denominated	18.62 years	19.62 years
UK sterling denominated	29.19 years	n/a
US dollar denominated	4.32 years	3.78 years

In addition the Fund may hold floating rate financial liabilities that comprise overdrawn bank balances, collateral balances, the pay legs of interest rate swaps and the pay legs of inflation rate swaps, the payments on which are uncertain. Overdrawn bank balances pay interest at rates based on LIBOR or the foreign currency equivalent. Collateral held on behalf of counterparties pay interest based on LIBOR or the foreign currency equivalent. The payment on floating rate legs of interest rate swaps is dependent on the specific base rate against which the swap has been taken. The payment on floating rate legs of inflation rate swaps is dependent on future inflation rates over the remaining life of the swap.

### 16 Derivative Exposure

The exposure to derivative counterparties was:

Counterparty	2018					2017				
	Forward	Inflation	Interest	Cash	Total	Forward	Inflation	Interest	Cash	Total
	currency contracts £'000	rate swaps £'000	rate swaps £'000	collateral held £'000	exposure £'000	currency contracts £'000	rate swaps £'000	rate swaps £'000	collateral held £'000	exposure £'000
Barclays	-	-	81	(155)	(74)	39	-	147	(155)	31
Deutsche Bank	15	-	16	-	31	19	-	17	-	35
HSBC	12	-	-	-	12	20	-	-	-	20
JP Morgan Chase	1	-	30	-	31	81	-	-	-	81
Merrill Lynch	-	-	152	-	152	-	-	28	-	28
National Australia Bank	6	-	-	-	6	54	-	-	-	54
Royal Bank of Canada	1	-	-	-	1	22	-	-	-	22

## Notes to the Financial Statements cont.

### 16 Derivative Exposure (continued)

Collateral pledged on derivatives was:

Counterparty	2018			2017		
	Cash £'000	Bonds £'000	Total £'000	Cash £'000	Bonds £'000	Total £'000
HSBC	-	171	171	170	-	170

In addition the Fund trades futures contracts through UBS. Fair value movements are offset by movements in the variation margin account which reduces the derivative counterparty exposure to nil. The Fund also trades cleared swaps through HSBC as clearing broker for LCH.Clearnet, the clearing house. The swap positions are collateralised and the collateral is held at the clearing house which reduces the counterparty exposure to nil.

### 17 Value at risk (VaR)

The market risk of the Fund's financial asset and liability positions is monitored by the Investment Adviser using VaR analysis. VaR analysis attempts to reflect the interdependencies between risk variables, unlike a traditional sensitivity analysis. VaR represents the potential losses from adverse changes in market factors for a specified time period and confidence level.

Model assumptions:

System	FIS Advanced Portfolio Technologies (APT)
VaR methodology:	variance covariance approach (with delta-adjustment)
Confidence level:	99%
Holding period:	1 month
Decay factor for exponential smoothing of historical market data:	nil
Historical observation period:	180 weeks

	2018	2017
	%	%
Fund VaR:	5.39	5.85
Index VaR:	5.31	5.61

The VaR noted above indicates the VaR of the Fund's financial instruments, measured as the potential 1 month loss in value from adverse changes in equity prices, interest rates, inflation and foreign currency exchange rates, with a 99% confidence level.

In combination with a snapshot of the portfolio and benchmark constituents at a given point in time, the APT risk model uses 180 weeks of historic data to formulate a prediction of risk over a desired time period. In the case of VaR numbers, the risk model produces a 1-month prediction of 99% VaR. The decay factor for exponential smoothing of the historic market data refers to how the risk model uses more recent data in its historic data window compared to older data. Using a positive decay factor would mean that the risk model is placing more importance on more recent data than on older data in formulating its prediction of risk this would result in the risk model being more short-term in nature, and increasingly geared to short-term recent events. The decay factor used in the APT risk model for calculating VaR numbers is nil. This means that each of the 180 weeks of historic data used by the risk model are treated with equal importance in the model's calculation of predicted risk. This means that the risk model's prediction of risk will be influenced by the average variances and covariances of portfolio and benchmark constituents over the past 3½ years.

## Notes to the Financial Statements cont.

### 17 Value at risk (VaR) (continued)

#### Objectives and limitations of the VaR methodology

The APT model uses statistical factor techniques to measure the effects of these risk variables on the value of the Fund. The VaR model is designed to measure market risk in a normal market environment.

The use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies significantly on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the given distribution assumption. VaR may also be under- or over-estimated due to the assumption placed on risk factors and the relationship between such factors for specific instruments.

Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level. In practice, the actual trading results will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation. Market risk positions are also subject to regular stress tests to ensure that the Fund would withstand an extreme market event.



# Distribution Table

Interim distribution for the period ended 31 December 2017

Group 1 : shares purchased prior to 1 October 2017

Group 2 : shares purchased 1 October 2017 to 31 December 2017

	Net Revenue	Equalisation	Distribution (paid/accumulated 28.02.18)	Distribution (paid/accumulated 28.02.17)
	31.12.17 pence per share	31.12.17 pence per share	31.12.17 pence per share	31.12.16 pence per share
A Accumulation				
Group 1	0.25000	-	0.25000	0.15000
Group 2	0.00391	0.24609	0.25000	0.15000
A Income				
Group 1	0.15000	-	0.15000	0.10000
Group 2	-	0.15000	0.15000	0.10000
B Accumulation				
Group 1	0.55000	-	0.55000	0.45000
Group 2	0.20501	0.34499	0.55000	0.45000
B Income				
Group 1	0.40000	-	0.40000	0.30000
Group 2	0.06725	0.33275	0.40000	0.30000
C Accumulation				
Group 1	0.75000	-	0.75000	0.75000
Group 2	0.75000	-	0.75000	0.75000
C Income				
Group 1	0.50000	-	0.50000	0.40000
Group 2	0.50000	-	0.50000	0.40000
G Accumulation				
Group 1	0.68000	-	0.68000	0.68000
Group 2	0.68000	-	0.68000	0.68000

## Distribution Table cont.

Interim distributions for the period ended 31 March 2018

Group 1 : shares purchased prior to 1 January 2018

Group 2 : shares purchased 1 January 2018 to 31 March 2018

	Net Revenue	Equalisation	Distribution (paid/accumulated 31.05.18)	Distribution (paid/accumulated 31.05.17)
	31.03.18 pence per share	31.03.18 pence per share	31.03.18 pence per share	31.03.17 pence per share
<b>A Accumulation</b>				
Group 1	0.25000	-	0.25000	0.15000
Group 2	-	0.25000	0.25000	0.15000
<b>A Income</b>				
Group 1	0.15000	-	0.15000	0.10000
Group 2	-	0.15000	0.15000	0.10000
<b>B Accumulation</b>				
Group 1	0.55000	-	0.55000	0.45000
Group 2	-	0.55000	0.55000	0.45000
<b>B Income</b>				
Group 1	0.40000	-	0.40000	0.30000
Group 2	-	0.40000	0.40000	0.30000
<b>C Accumulation</b>				
Group 1	0.75000	-	0.75000	0.75000
Group 2	0.75000	-	0.75000	0.75000
<b>C Income</b>				
Group 1	0.50000	-	0.50000	0.40000
Group 2	0.50000	-	0.50000	0.40000
<b>G Accumulation</b>				
Group 1	0.68000	-	0.68000	0.65000
Group 2	0.68000	-	0.68000	0.65000

## Distribution Table cont.

Interim distribution for the period ended 30 June 2018

Group 1 : share purchased prior to 1 April 2018

Group 2 : share purchased 1 April 2018 to 30 June 2018

	Net Revenue	Equalisation	Distribution (paid/accumulated 31.08.18)	Distribution (paid/accumulated 31.08.17)
	30.06.18 pence per share	30.06.18 pence per share	30.06.18 pence per share	30.06.17 pence per share
<b>A Accumulation</b>				
Group 1	0.25000	-	0.25000	0.15000
Group 2	-	0.25000	0.25000	0.15000
<b>A Income</b>				
Group 1	0.15000	-	0.15000	0.10000
Group 2	-	0.15000	0.15000	0.10000
<b>B Accumulation</b>				
Group 1	0.55000	-	0.55000	0.45000
Group 2	-	0.55000	0.55000	0.45000
<b>B Income</b>				
Group 1	0.40000	-	0.40000	0.30000
Group 2	0.01316	0.38684	0.40000	0.30000
<b>C Accumulation</b>				
Group 1	0.75000	-	0.75000	0.75000
Group 2	0.75000	-	0.75000	0.75000
<b>C Income</b>				
Group 1	0.50000	-	0.50000	0.40000
Group 2	0.50000	-	0.50000	0.40000
<b>G Accumulation</b>				
Group 1	0.68000	-	0.68000	0.65000
Group 2	0.68000	-	0.68000	0.65000

## Distribution Table cont.

Final distribution for the period ended 30 September 2018

Group 1 : shares purchased prior to 1 July 2018

Group 2 : shares purchased 1 July 2018 to 30 September 2018

	Net Revenue	Equalisation	Distribution (paid/accumulated 30.11.18)	Distribution (paid/accumulated 30.11.17)
	30.09.18 pence per share	30.09.18 pence per share	30.09.18 pence per share	30.09.17 pence per share
<b>A Accumulation</b>				
Group 1	0.87000	-	0.87000	0.76000
Group 2	0.22225	0.64775	0.87000	0.76000
<b>A Income</b>				
Group 1	0.63000	-	0.63000	0.50000
Group 2	0.14853	0.48147	0.63000	0.50000
<b>B Accumulation</b>				
Group 1	1.69000	-	1.69000	1.48000
Group 2	0.50349	1.18651	1.69000	1.48000
<b>B Income</b>				
Group 1	0.94000	-	0.94000	0.94000
Group 2	0.16836	0.77164	0.94000	0.94000
<b>C Accumulation</b>				
Group 1	1.72000	-	1.72000	1.51000
Group 2	1.72000	-	1.72000	1.51000
<b>C Income</b>				
Group 1	1.23000	-	1.23000	1.19000
Group 2	1.23000	-	1.23000	1.19000
<b>G Accumulation</b>				
Group 1	1.53000	-	1.53000	1.16000
Group 2	1.53000	-	1.53000	1.16000



# BAILLIE GIFFORD

## Baillie Gifford Active Index-Linked Gilt Plus Fund

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a sub-fund of Baillie Gifford Bond Funds ICVC

*Annual Report and Financial Statements  
for the year ended 30 September 2018*



# Baillie Gifford Active Index-Linked Gilt Plus Fund

## Investment Objective

The Fund aims to produce a total return, through combined capital growth and income payment, before charges, that is on average 1.5% greater than the total return of the FTSE Actuaries UK Index-Linked Gilts Over 5 Years Index.

## Investment Policy

To invest mainly in UK government bonds. Currency forwards and derivatives, which are types of financial contracts, are used to protect or enhance the return of the Fund, including for investment purposes. Other bonds are used for investment purposes. The Fund is exposed to foreign currencies. We will assess performance of the Fund compared to the Index over rolling three year periods. There is no guarantee that a positive return will be achieved over rolling three year periods or any time period.

## 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 UK government bonds which generally provide higher rewards and higher risks than other investments such as cash.

The indicator does not take into account the following relevant material risks:

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.

The Fund has exposure to foreign currencies and changes in the rates of exchange will cause the value of an investment, and income from it, to fall as well as rise and you may not get back the amount invested.

Custody of assets involves a risk of loss if the custodian becomes insolvent or breaches duties of care.

Bonds issued by companies and governments may be adversely affected by changes in interest rates, expectations of inflation and a decline in the creditworthiness of the bond issuer. The issuers of bonds in which the Fund invests may not be able to pay the bond income as promised or could fail to repay the capital amount.

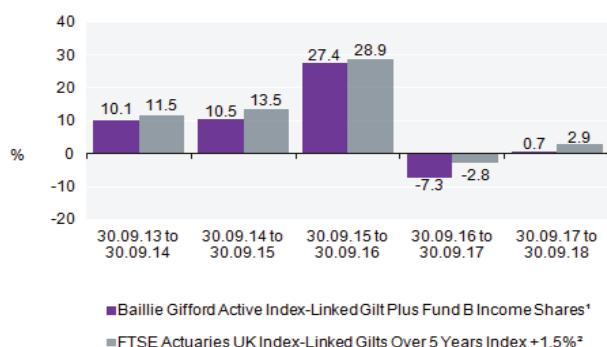
Derivatives may be used to obtain, increase or reduce exposure to assets and may result in the Fund being leveraged. This may result in greater movements (down or up) in the price of shares in the Fund. It is not our intention that the use of derivatives will significantly alter the overall risk profile of the Fund.

The result of the UK Referendum on membership of the European Union introduces elements of political uncertainty and may have practical consequences for the Fund. Developments will be closely monitored.

Further details of the risks associated with investing in the Fund can be found in the Prospectus which is available by contacting Client Relations or visiting our website.

# Investment Report

## Past Performance<sup>1</sup>



The performance figures shown in this graph are for Class B Income Shares. Performance figures reflect the ACD's annual fee of 0.35%, but exclude any initial charge paid. Please note these returns differ from the returns quoted 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 contacting Client Relations. You should be aware that past performance is not a guide to future performance.

For the year to 30 September 2018 the return on B Income Shares was 0.7%<sup>3</sup>, compared to the return on the FTSE Actuaries UK Index-Linked Gilts Over 5 Years Index + 1.5% of 2.9%<sup>2</sup>. The modest absolute return was driven by a slight increase in bond yields being offset by coupon income. The Fund benefited from its underweight positions in government bonds as the US Federal Reserve continued to raise interest rates at a faster pace than that expected by the market which caused bond prices globally to fall. On the other hand, the Fund's relative underperformance versus the Index over the 12 months stemmed from its positive stance on emerging market currencies, which performed poorly after President Trump's plans to adjust US tariffs on trade increased in scope and magnitude.

Expectations of continuing synchronised global growth during the first half of the investment period supported export and commodity-focused countries whilst the monetary policy stances of the major central banks remained very accommodative. The Fund's overweight positions in the currencies of Brazil, Malaysia and Russia performed well during this period. The announcement in November of wide-ranging US personal and corporate tax cuts caused bond prices to

weaken globally. This did however, support US growth and, given continuing low inflation, this helped to calm market nervousness about potential interest rate rises.

Concerns about US trade policy, as President Trump's threats to withdraw from NAFTA intensified and the imposition of more punitive tariffs on Chinese products, soured sentiment towards exporting countries over the summer. These, combined with localised confidence crises in Turkey and Argentina caused a sharp increase in market volatility and falls in emerging market asset prices. Electoral uncertainty in Brazil, as the two-horse race narrowed between the hard left and hard right candidates, dealt emerging market sentiment another blow, and the Fund's overweight positions in the currencies of Argentina and Brazil detracted from performance. Markets remain nervous as the US Federal Reserve looks set to carry on with its interest rate raising intentions, and the Fund no longer holds any exposure to emerging markets.

Strong economic growth in Norway, as a result of higher oil prices, lifted domestic investment and wages and benefited the Fund's overweight position in the Norwegian krone, which continues to contribute to Fund performance. Indications from Japan that the local economy may be growing quickly enough and that

<sup>1</sup>Source: FE, 10am dealing prices, income reinvested, after charges. <sup>2</sup>Source: FE and relevant underlying index provider, total return. Please see Disclaimer on page 296. <sup>3</sup>Source: Baillie Gifford & Co Limited, closing mid prices, income reinvested, after charges. You should be aware that past performance is not a guide to future performance.



## Investment Report cont.

inflation is becoming more sustainable have driven hopes that the central bank will start to remove stimulus, and this has helped Fund performance through its underweight position in Japanese bonds.

In the UK, the government's failure thus far to reach agreement with the EU on likely future trading arrangements has caused the pound and gilts to fluctuate without settling on any clear direction, whilst the Bank of England has signalled that it will most likely continue to raise interest rates despite economic activity being somewhat disappointing. Inflation moderated as the effects faded of sterling's sharp depreciation following the 2016 vote to leave the EU and as growth underwhelmed. The Fund's underweight position in inflation-linked gilts has contributed positively to performance, but has recently been reduced in the expectation that inflation will stabilise once a late Brexit compromise is reached.

*Baillie Gifford & Co, 24 October 2018*

## Principal Bond Holdings as at 30 September 2018

Investment	Percentage of total Fund
UK Treasury 1.25% IL 22/11/2055	12.06
UK Treasury 0.75% IL 22/11/2047	11.67
UK Treasury 0.125% IL 22/03/2068	10.97
UK Treasury 0.625% IL 22/11/2042	9.41
UK Treasury 0.5% IL 22/03/2050	8.68
UK Treasury 4.125% IL 22/07/2030	8.33
UK Treasury 0.375% IL 22/03/2062	6.75
UK Treasury 1.125% IL 22/11/2037	6.42
UK Treasury 2% IL 26/01/2035	6.07
UK Treasury 1.25% IL 22/11/2027	5.73

## Material Portfolio Changes for the year ended 30 September 2018

Largest Purchases	Cost £'000	Largest Sales	Proceeds £'000
UK Treasury 0.75% IL 22/11/2047	7,666	UK Treasury 2.5% IL 17/07/2024	10,246
South Africa 8.25% 31/03/2032	5,487	UK Treasury 0.5% IL 22/03/2050	4,953
UK Treasury 0.125% IL 22/03/2068	4,934	South Africa 8.25% 31/03/2032	4,783
UK Treasury 2.5% IL 17/07/2024	4,746	UK Treasury 1.25% IL 22/11/2055	3,723
UK Treasury 4.125% IL 22/07/2030	4,513	UK Treasury 0.75% IL 22/11/2047	3,578
UK Treasury 0.625% IL 22/11/2042	3,523	UK Treasury 1.25% IL 22/11/2027	3,381
UK Treasury 1.25% IL 22/11/2055	3,223	UK Treasury 0.125% IL 22/03/2068	3,084
UK Treasury 1.25% IL 22/11/2027	3,205	UK Treasury 0.625% IL 22/11/2042	2,709
UK Treasury 0.5% IL 22/03/2050	2,313	UK Treasury 4.125% IL 22/07/2030	2,526
New Zealand 2.5% IL 20/09/2035	2,246	South Africa 8.75% 31/01/2044	2,519

The largest purchases and sales of bonds have been shown.

# Portfolio Statement as at 30 September 2018

Stock description	Holding	Market value £'000	% of total net assets
<b>Fixed Income - 99.83% (99.13%)</b>			
<b>Sovereign Bonds - 99.83% (99.13%)</b>			
<b>Overseas Government Bonds - 6.07% (7.11%)</b>			
Australia 3% 21/03/2047	1,699,000	913	0.82
Mexico IL 4% 15/11/2040	88,500	2,276	2.05
New Zealand 2.5% IL 20/09/2035	3,850,000	2,296	2.06
US Treasury 3% 15/11/2045	1,725,000	1,274	1.14
<b>Quasi Government Bonds - 1.35% (1.14%)</b>			
Network Rail 1.75% IL 22/11/2027	829,000	1,497	1.35
<b>UK Government Bond - 92.41% (90.88%)</b>			
UK Treasury 0.125% IL 22/03/2068	4,870,840	12,206	10.97
UK Treasury 0.125% IL 22/11/2036	1,508,650	2,214	1.99
UK Treasury 0.375% IL 22/03/2062	2,947,142	7,513	6.75
UK Treasury 0.5% IL 22/03/2050	4,077,373	9,660	8.68
UK Treasury 0.625% IL 22/11/2042	4,843,379	10,467	9.41
UK Treasury 0.75% IL 22/11/2047	5,282,548	12,980	11.67
UK Treasury 1.125% IL 22/11/2037	3,203,739	7,142	6.42
UK Treasury 1.25% IL 22/11/2027	3,385,000	6,376	5.73
UK Treasury 1.25% IL 22/11/2032	1,670,633	3,162	2.84
UK Treasury 1.25% IL 22/11/2055	3,902,532	13,424	12.06
UK Treasury 2% IL 26/01/2035	2,548,831	6,755	6.07
UK Treasury 2.5% IL 17/07/2024	460,200	1,663	1.49
UK Treasury 4.125% IL 22/07/2030	2,583,167	9,270	8.33
<b>Derivatives - 0.34% (0.46%)</b>			
Forward currency contracts (see Table 1)		19	0.02
Futures contracts (see Table 2)		-	0.00

## Portfolio Statement as at 30 September 2018 cont.

Stock description	Holding	Market value £'000	% of total net assets
Interest rate swap contracts (see Table 3)		355	0.32
<b>Portfolio of investments</b>		<b>111,462</b>	<b>100.17</b>
<b>Net other liabilities - (0.17%) (0.41%)</b>		<b>(187)</b>	<b>(0.17)</b>
<b>Net assets</b>		<b>111,275</b>	<b>100.00</b>

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

Unless otherwise stated the above holdings are in fixed interest securities.

Figures in brackets in the investment category headings refer to 30 September 2017.

**Table 1: Unrealised gains/(losses) on open forward currency contracts**

Counterparty	Settlement	Buy	Buy Amount	Sell	Sell Amount	Unrealised gains/(losses) £'000	% of total net assets
Deutsche Bank	25/10/18	GBP	2,815,836	EUR	3,150,000	8	0.01
Deutsche Bank	25/10/18	NOK	20,700,000	GBP	1,918,229	31	0.03
Deutsche Bank	29/11/18	GBP	1,716,777	EUR	1,923,000	-	0.00
Deutsche Bank	29/11/18	GBP	1,099,658	USD	1,440,000	(1)	0.00
HSBC	25/10/18	GBP	2,163,277	EUR	2,420,000	6	0.01
HSBC	25/10/18	NOK	27,800,000	GBP	2,576,172	41	0.04
HSBC	29/11/18	GBP	692,632	USD	907,000	(1)	0.00
JP Morgan Chase	22/11/18	GBP	2,140,685	MXN	52,800,000	-	0.00
JP Morgan Chase	29/11/18	GBP	1,738,834	USD	2,277,000	(2)	0.00
JP Morgan Chase	20/12/18	CHF	2,810,000	GBP	2,235,972	(21)	(0.02)
National Australia Bank	15/11/18	AUD	4,370,000	GBP	2,426,497	(6)	(0.01)
National Australia Bank	29/11/18	GBP	1,994,293	CAD	3,400,000	(19)	(0.02)
National Australia Bank	16/05/19	GBP	2,256,173	NZD	4,420,000	28	0.02
Royal Bank of Canada	01/11/18	JPY	327,000,000	GBP	2,251,573	(42)	(0.04)
Royal Bank of Canada	29/11/18	GBP	222,892	CAD	380,000	(2)	0.00
Royal Bank of Canada	29/11/18	GBP	1,140,895	USD	1,494,000	(1)	0.00
Unrealised gains/(losses) on open forward currency contracts						19	0.02

## Portfolio Statement as at 30 September 2018 cont.

**Table 2: Unrealised gains/(losses) on futures contracts**

Futures	Maturity	Notional	Unrealised gains/(losses) £'000	% of total net assets
Long Gilt Future 10 Year December 2018	31/12/18	(11)	-	0.00
US Ultra 10 Year Note Future December 2018	31/12/18	12	-	0.00
Unrealised gains/(losses) on futures contracts			-	0.00

**Table 3: Unrealised gains/(losses) on open interest rate swap contracts**

Counterparty	Ccy	Termination	Notional	Fund pays	Fund receives	Unrealised gains/(losses) £'000	% of total net assets
Barclays	EUR	09/12/19	12,405,000	Euribor 6 Month	-0.0755%	19	0.02
Barclays	JPY	31/08/46	270,000,000	0.397%	JPY LIBOR 6 Month	235	0.21
Deutsche Bank	KRW	08/05/37	3,130,000,000	1.97%	KRW Certificate of Deposit 3 Month	73	0.07
JP Morgan Chase	NZD	29/06/23	12,500,000	2.6175%	New Zealand Bank Bill 3 Month FRA	(75)	(0.07)
JP Morgan Chase	USD	22/01/23	10,650,000	USD LIBOR 3 Month	2.4632%	(193)	(0.17)
Merrill Lynch	EUR	27/11/24	6,050,000	0.4677%	Euribor 6 Month	28	0.02
Merrill Lynch	MXN	15/12/20	118,000,000	Mexico Interbank TIIE 28 Day	7.85%	(7)	(0.01)
Merrill Lynch	MXN	09/06/22	97,300,000	Mexico Interbank TIIE 28 Day	7.005%	(112)	(0.10)
Merrill Lynch	USD	22/01/23	21,300,000	2.4632%	USD LIBOR 3 Month	387	0.35
Unrealised gains/(losses) on open interest rate swap contracts						355	0.32

# Comparative Tables

## Comparative Table: B Accumulation Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Period Ended 30 September 2017 (pence per share)
<b>Change in net assets per share:</b>		
Opening net asset value per share	183.48	190.60 <sup>1</sup>
Return before operating charges*	2.11	(6.47)
Operating charges	(0.73)	(0.65)
Return after operating charges*	1.38	(7.12)
Distributions	(3.11)	(1.78)
Retained distributions on accumulation shares	3.11	1.78
<b>Closing net asset value per share</b>	<b>184.86</b>	<b>183.48</b>
*After direct transaction costs of:	0.00	0.00
<b>Performance:</b>		
Return after charges	0.75%	(3.74)%
<b>Other Information:</b>		
Closing net asset value (£'000)	706	645
Closing number of shares	381,222	351,308
Operating charges	0.39% <sup>2</sup>	0.38%
Direct transaction costs <sup>3</sup>	0.00%	0.00%
<b>Prices:</b>		
Highest share price (pence)	192.3	201.3
Lowest share price (pence)	181.1	176.2

## Comparative Tables cont.

### Comparative Table: B Income Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	181.70	192.12	154.55
Return before operating charges*	2.08	(7.86)	39.04
Operating charges	(0.70)	(0.71)	(0.62)
Return after operating charges*	1.38	(8.57)	38.42
Distributions on income shares	(3.07)	(1.85)	(0.85)
<b>Closing net asset value per share</b>	<b>180.01</b>	<b>181.70</b>	<b>192.12</b>
 *After direct transaction costs of:	 0.00	 0.00	 0.00
<b>Performance:</b>			
Return after charges	0.76%	(4.47)%	24.75%
<b>Other Information:</b>			
Closing net asset value (£'000)	9,048	6,045	6,312
Closing number of shares	5,026,514	3,326,589	3,285,711
Operating charges	0.38% <sup>2</sup>	0.38%	0.38%
Direct transaction costs <sup>3</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	189.4	201.3	197.5
Lowest share price (pence)	178.4	176.2	147.8



## Comparative Tables cont.

### Comparative Table: C Accumulation Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	247.27	257.93	205.84
Return before operating charges*	2.80	(10.58)	52.15
Operating charges	(0.08)	(0.08)	(0.06)
Return after operating charges*	2.72	(10.66)	52.09
Distributions	(5.09)	(3.38)	(1.88)
Retained distributions on accumulation shares	5.09	3.38	1.88
<b>Closing net asset value per share</b>	<b>249.99</b>	<b>247.27</b>	<b>257.93</b>
*After direct transaction costs of:	0.00	0.00	0.00
<b>Performance:</b>			
Return after charges	1.10%	(4.13)%	25.31%
<b>Other Information:</b>			
Closing net asset value (£'000)	64,628	91,105	104,391
Closing number of shares	25,852,116	36,843,628	40,472,360
Operating charges	0.03%	0.03%	0.03%
Direct transaction costs <sup>3</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	259.8	270.8	264.4
Lowest share price (pence)	244.6	236.7	197.0

## Comparative Tables cont.

### Comparative Table: C Income Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	181.81	192.24	154.63
Return before operating charges*	2.07	(7.85)	39.07
Operating charges	(0.06)	(0.06)	(0.05)
Return after operating charges*	2.01	(7.91)	39.02
Distributions on income shares	(3.73)	(2.52)	(1.41)
<b>Closing net asset value per share</b>	<b>180.09</b>	<b>181.81</b>	<b>192.24</b>
 *After direct transaction costs of:	 0.00	 0.00	 0.00
<b>Performance:</b>			
Return after charges	1.11%	(4.14)%	25.05%
<b>Other Information:</b>			
Closing net asset value (£'000)	34,845	1,273	1,347
Closing number of shares	19,348,215	700,366	700,366
Operating charges	0.03%	0.03%	0.03%
Direct transaction costs <sup>3</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	189.9	201.5	197.8
Lowest share price (pence)	178.9	176.4	147.9

## Comparative Tables cont.

### Comparative Table: G Accumulation Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Period Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	246.36	257.61	209.80 <sup>4</sup>
Return before operating charges*	2.79	(10.55)	48.52
Operating charges	(0.70)	(0.70)	(0.71)
Return after operating charges*	2.09	(11.25)	47.81
Distributions	(4.44)	(2.74)	(0.74)
Retained distributions on accumulation shares	4.44	2.74	0.74
<b>Closing net asset value per share</b>	<b>248.45</b>	<b>246.36</b>	<b>257.61</b>
*After direct transaction costs of:	0.00	0.00	0.00
<b>Performance:</b>			
Return after charges	0.85%	(4.37)%	22.79%
<b>Other Information:</b>			
Closing net asset value (£'000)	2,048	13,502	1,560
Closing number of shares	824,187	5,480,795	605,488
Operating charges	0.28% <sup>5</sup>	0.28%	0.29%
Direct transaction costs <sup>3</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	258.3	270.2	264.1
Lowest share price (pence)	243.4	236.3	201.0

<sup>1</sup>Class B Accumulation Shares were launched on 1 November 2016.

<sup>2</sup>With effect from 1 November 2018 the ACD's annual fee for Class B Shares decreased from 0.35% to 0.15%. As at 30 September 2018, the ACD considered 0.18% to be a more indicative rate for the ongoing charges figure.

<sup>3</sup>The Fund incurs broker commission and transfer taxes/stamp duty as a necessary part of buying and selling the Fund's underlying investments in order to achieve the investment objective. Commission is also payable to the counterparty on the trading of future contracts.

A dilution adjustment is made whenever dealings in the shares of the Fund result in shares being issued or cancelled by the Company. The adjustment will take account of any spread between the buying and selling prices of the Fund's investments and the costs (which may include dealing charges and taxes) of acquiring or disposing of such investments. Please note that the direct transaction cost disclosures above do not include the dilution adjustment charges. For further details on dilution adjustment charges please see the General Information section.

<sup>4</sup>Class G Accumulation Shares were launched on 1 April 2016.

<sup>5</sup>With effect from 1 November 2018 the ACD's annual fee for Class G Shares decreased from 0.25% to 0.15%. As at 30 September 2018, the ACD considered 0.18% to be a more indicative rate for the ongoing charges figure.

# Financial Statements

## Statement of Total Return for the year ended 30 September 2018

		2018		2017	
	Notes	£'000	£'000	£'000	£'000
Income					
Net capital gains/(losses)	1		(483)		(6,086)
Revenue	3	2,425		1,558	
Expenses	4	(86)		(94)	
Net revenue before taxation		2,339		1,464	
Taxation	5	-		-	
Net revenue after taxation			2,339		1,464
Total return before distributions			1,856		(4,622)
Distributions	6		(2,339)		(1,464)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>(483)</b>		<b>(6,086)</b>

## Statement of Change in Net Assets Attributable to Shareholders for the year ended 30 September 2018

	2018		2017	
	£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>		<b>112,570</b>		<b>113,610</b>
Amounts receivable on issue of shares	34,175		14,471	
Amounts payable on cancellation of shares	(36,583)		(10,861)	
		(2,408)		3,610
Dilution adjustment		69		45
Change in net assets attributable to shareholders from investment activities		(483)		(6,086)
Retained distributions on accumulation shares		1,527		1,391
<b>Closing net assets attributable to shareholders</b>		<b>111,275</b>		<b>112,570</b>

## Financial Statements cont.

### Balance Sheet as at 30 September 2018

	Notes	2018 £'000	2017 £'000
<b>Assets:</b>			
Fixed assets:			
Investments	13	111,944	112,569
Current assets:			
Debtors	8	797	495
Cash and bank balances	9	593	684
<b>Total assets</b>		<b>113,334</b>	<b>113,748</b>
<b>Liabilities:</b>			
Investment liabilities	13	(482)	(455)
Creditors:			
Bank overdrafts	9	(178)	(27)
Distributions payable		(510)	(70)
Other creditors	10	(889)	(626)
<b>Total liabilities</b>		<b>(2,059)</b>	<b>(1,178)</b>
<b>Net assets attributable to shareholders</b>		<b>111,275</b>	<b>112,570</b>

# Notes to the Financial Statements

## 1 Net capital gains/(losses)

	2018	2017
	£'000	£'000
Non-derivative securities	(265)	(6,774)
Derivative contracts	496	(323)
Forward currency contracts	(530)	979
Currency gains/(losses)	(183)	32
Transaction costs	(1)	-
<b>Net capital gains/(losses)</b>	<b>(483)</b>	<b>(6,086)</b>

## 2 Purchases, sales and transaction costs

	2018	2017
	£'000	£'000
<b>Purchases and transaction costs</b>		
Gross purchases of bonds excluding transaction costs <sup>1</sup>	50,504	55,312
<b>Purchases including transaction costs</b>	<b>50,504</b>	<b>55,312</b>

<sup>1</sup>There were no transaction costs on the purchase of bonds.

	2018	2017
	£'000	£'000
<b>Sales and transaction costs</b>		
Gross sales of bonds excluding transaction costs <sup>1</sup>	52,138	49,937
<b>Sales net of transaction costs</b>	<b>52,138</b>	<b>49,937</b>

<sup>1</sup>There were no transaction costs on the sale of bonds.

	2018	2017
	£'000	£'000
<b>Transaction cost on derivative contracts</b>		
Commission on trading futures contracts	-	2

## Notes to the Financial Statements cont.

### 2 Purchases, sales and transaction costs (continued)

	2018		2017	
	£'000	% of average NAV	£'000	% of average NAV
<b>Portfolio transaction costs</b>				
Commissions	-	0.00	2	0.00
Taxes	-	0.00	-	0.00
<b>Total direct transaction costs</b>	<b>-</b>	<b>0.00</b>	<b>2</b>	<b>0.00</b>
			2018	2017
			%	%
Average portfolio dealing spread			0.03	0.02

The Fund incurs broker commission and transfer taxes/stamp duty as a necessary part of buying and selling the Fund's underlying investments in order to achieve the investment objective. Commission is also payable to the counterparty on the trading of futures contracts.

Dilution adjustment charges, which do not form part of the direct transaction costs disclosures above, may be incurred as a result of trading in underlying funds. For further details on dilution adjustment charges please see the General Information section.

Dealing spread is the difference in the buying and selling prices of the underlying investments. Dealing spreads vary considerably depending on the transaction value and market sentiment. The Fund may have holdings in single priced funds. The notional spread on these holdings is not included in the average dealing spread calculated for this Fund.

### 3 Revenue

	2018	2017
	£'000	£'000
Interest on debt securities	2,549	1,740
Bank interest	3	1
Swaps interest	(127)	(183)
<b>Total revenue</b>	<b>2,425</b>	<b>1,558</b>

## Notes to the Financial Statements cont.

### 4 Expenses

	2018	2017
	£'000	£'000
<b>Payable to the ACD, associates of the ACD and agents of either of them:</b>		
ACD's periodic charge	53	62
<b>Payable to the Depositary, associates of the Depositary and agents of either of them:</b>		
Depositary's fee	15	14
Bank charges	5	4
	20	18
<b>Other expenses:</b>		
Audit fee	6	7
Professional fees	7	7
	13	14
<b>Total expenses</b>	<b>86</b>	<b>94</b>

### 5 Taxation

	2018	2017
	£'000	£'000
<b>Analysis of charge in the year</b>		
Corporation tax	-	-
<b>Total taxation</b>	<b>-</b>	<b>-</b>

The Fund is subject to corporation tax at 20% (2017: 20%), however, the Fund is a bond fund making interest distributions and the interest distributions made by the Fund are allowable in arriving at the amount of revenue liable to tax. As a result, this has reduced the corporation tax liability of the Fund to nil.

The deduction of the interest distribution has been restricted to reflect the priority utilisation of the management expenses incurred by the Fund in the year, as per regulation 13(1A) of SI 2006/964. This results in no excess management expenses or interest distribution being carried forward.

The tax charge is explained as follows:

	2018	2017
	£'000	£'000
Net revenue/(expense) before taxation	2,339	1,464
Net revenue before taxation multiplied by the standard rate of corporation tax of 20% (2017: 20%)	468	293
Effects of:		
Interest distributions	(468)	(293)
<b>Total taxation</b>	<b>-</b>	<b>-</b>



## Notes to the Financial Statements cont.

### 6 Distributions

	2018	2017
	£'000	£'000
Interim to 31 December	272	124
Interim to 31 March	312	129
Interim to 30 June	305	127
Final to 30 September	1,390	1,090
	<b>2,279</b>	<b>1,470</b>
Amounts deducted on cancellation of shares	473	32
Amounts added on issue of shares	(413)	(38)
<b>Total distributions</b>	<b>2,339</b>	<b>1,464</b>

The distributions take account of revenue transactions on the issue and cancellation of shares. Details of the distributions per share are set out in the Distribution Tables.

### 7 Reconciliation of net revenue to net distributions for the year

	2018	2017
	£'000	£'000
Net revenue after taxation for the year	2,339	1,464
<b>Net distributions for the year</b>	<b>2,339</b>	<b>1,464</b>

### 8 Debtors

	2018	2017
	£'000	£'000
Receivable for issue of shares	11	-
Sales awaiting settlement	392	302
Accrued income	147	193
Collateral held by counterparties	130	-
Amounts due from clearing brokers	116	-
Other debtors	1	-
<b>Total debtors</b>	<b>797</b>	<b>495</b>

## Notes to the Financial Statements cont.

### 9 Cash and bank balances

	2018	2017
	£'000	£'000
Sterling amounts held at clearing houses and brokers	29	37
Foreign amounts held at clearing houses and brokers	32	32
Sterling bank accounts	532	615
	593	684
Sterling amounts held at clearing houses and brokers overdrawn	(29)	(27)
Foreign amounts held at clearing houses and brokers overdrawn	(13)	-
Sterling bank accounts overdrawn	(136)	-
<b>Total cash and bank balances</b>	<b>415</b>	<b>657</b>

### 10 Other creditors

	2018	2017
	£'000	£'000
Payable for cancellation of shares	9	14
Due to the ACD or associates	3	5
Due to the Depositary or associates	3	2
Collateral held on behalf of counterparty	660	560
Amounts due to clearing broker	199	32
Other accrued expenses	15	13
<b>Total other creditors</b>	<b>889</b>	<b>626</b>

### 11 Related party transactions

Baillie Gifford & Co Limited, as ACD, is regarded as a related party by virtue of the services provided to the Company. Baillie Gifford & Co Limited acts as principal in respect of all transactions of shares in the Company, except where stocks are transferred on the issue or cancellation of shares. The aggregate monies received through issue and paid on cancellation are disclosed in the Statement of Change in Net Assets Attributable to Shareholders. Amounts receivable and payable on the issue and cancellation of shares have been disclosed in notes 8 and 10 respectively.

Amounts paid to Baillie Gifford & Co Limited in respect of ACD fees are disclosed in note 4 with amounts due at the year end given in note 10.

#### Shares held by the ACD and associates of the ACD

The shares held by the ACD and associates of the ACD as a percentage of the Fund's NAV were:

	2018	2017
	%	%
ACD and associates of the ACD	0.00	8.87

## Notes to the Financial Statements cont.

### 12 Reconciliation of shares in issue

	2018				
	B Accumulation Shares	B Income Shares	C Accumulation Shares	C Income Shares	G Accumulation Shares
Opening shares in issue	351,308	3,326,589	36,843,628	700,366	5,480,795
Shares issued	3,090,554	2,300,182	7,014,223	172,401	2,853,132
Shares cancelled	(3,060,640)	(600,258)	(5,739,718)	(107,124)	(6,139,585)
Shares converted	-	-	(12,266,017)	18,582,573	(1,370,155)
<b>Closing shares in issue</b>	<b>381,222</b>	<b>5,026,513</b>	<b>25,852,116</b>	<b>19,348,216</b>	<b>824,187</b>

### 13 Basis of valuation

	2018		2017	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Level 1: Quoted prices	-	-	-	-
Level 2: Observable market data	111,944	(482)	112,569	(455)
Level 3: Unobservable data	-	-	-	-
<b>Total</b>	<b>111,944</b>	<b>(482)</b>	<b>112,569</b>	<b>(455)</b>

### 14 Credit ratings

Rating Block	2018		2017	
	Market value £'000	Percentage of total Fund	Market value £'000	Percentage of total Fund
Investment Grade	111,087	99.83	111,588	99.13
Total Bonds - Direct	111,087	99.83	111,588	99.13
Other	188	0.17	982	0.87
<b>Net Assets</b>	<b>111,275</b>	<b>100.00</b>	<b>112,570</b>	<b>100.00</b>

## Notes to the Financial Statements cont.

### 15 Derivatives and other financial instruments

#### Currency exposures

A proportion of the net assets of the Fund are denominated in currencies other than sterling, with the effect that the balance sheet and total return can be significantly affected by currency movements.

Currency	Net foreign currency assets/(liabilities)			Net foreign currency assets/(liabilities)		
	2018			2017		
	Monetary exposures £'000	Non-monetary exposures £'000	Total £'000	Monetary exposures £'000	Non-monetary exposures £'000	Total £'000
Argentine peso	-	-	-	-	3,413	3,413
Australian dollar	-	3,333	3,333	-	(2,189)	(2,189)
Canadian dollar	-	(2,239)	(2,239)	-	(3,317)	(3,317)
Chilean peso	-	-	-	-	(3,379)	(3,379)
Colombian peso	-	-	-	-	(2,276)	(2,276)
Euro	16	(6,634)	(6,618)	-	(2,249)	(2,249)
Japanese yen	-	2,445	2,445	-	140	140
Malaysian ringgit	-	-	-	-	2,323	2,323
Mexican peso	-	16	16	-	2,293	2,293
New Zealand dollar	106	(7)	99	-	-	-
Norwegian krona	-	4,567	4,567	-	3,266	3,266
Peruvian nuevo sol	-	-	-	-	2,202	2,202
Russian ruble	-	-	-	-	2,311	2,311
South African rand	-	-	-	-	(26)	(26)
South Korean won	-	73	73	-	(2,226)	(2,226)
Swiss franc	-	2,215	2,215	-	-	-
Turkish lira	-	-	-	-	1,125	1,125
UK sterling	(135)	110,903	110,768	64	109,372	109,436
US dollar	(186)	(3,210)	(3,396)	32	1,329	1,361

Short term debtors and creditors have not been disclosed.

## Notes to the Financial Statements cont.

### 15 Derivatives and other financial instruments (continued)

#### Interest rate risk profile of financial assets and financial liabilities

The interest rate risk profile of the Fund was:

Currency	2018				2017			
	Floating Rate financial assets £'000	Fixed Rate financial assets £'000	Financial assets not carrying interest £'000	Total £'000	Floating Rate financial assets £'000	Fixed Rate financial assets £'000	Financial assets not carrying interest £'000	Total £'000
Argentine peso	-	-	-	-	-	-	3,413	3,413
Australian dollar	-	913	2,420	3,333	-	1,077	-	1,077
Euro	5,407	11,070	-	16,477	11,183	10,948	-	22,131
Japanese yen	1,823	-	2,210	4,033	1,788	5,191	-	6,979
Malaysian ringgit	-	-	-	-	-	-	2,323	2,323
Mexican peso	2,276	8,711	-	10,987	2,223	8,062	-	10,285
New Zealand dollar	8,767	-	-	8,767	-	-	-	-
Norwegian krona	-	-	4,567	4,567	-	-	3,266	3,266
Peruvian nuevo sol	-	-	-	-	-	-	2,202	2,202
Russian ruble	-	-	-	-	-	-	2,312	2,312
South African rand	-	-	-	-	-	2,331	-	2,331
South Korean won	2,164	-	-	2,164	2,037	-	-	2,037
Swiss franc	-	-	2,215	2,215	-	-	-	-
Turkish lira	-	-	-	-	-	-	1,125	1,125
UK sterling	105,020	-	17,982	123,002	104,241	-	20,701	124,942
US dollar	16,347	9,247	-	25,594	28,586	2,368	-	30,954

## Notes to the Financial Statements cont.

## 15 Derivatives and other financial instruments (continued)

Currency	2018				2017			
	Floating Rate financial liabilities £'000	Fixed Rate financial liabilities £'000	Financial liabilities not carrying interest £'000	Total £'000	Floating Rate financial liabilities £'000	Fixed Rate financial liabilities £'000	Financial liabilities not carrying interest £'000	Total £'000
Australian dollar	-	-	-	-	-	-	3,266	3,266
Canadian dollar	-	-	2,239	2,239	-	-	3,317	3,317
Chilean peso	-	-	-	-	-	-	3,379	3,379
Colombian peso	-	-	-	-	-	-	2,276	2,276
Euro	11,052	5,361	6,682	23,096	10,932	11,153	2,295	24,380
Japanese yen	-	1,588	-	1,588	5,264	1,574	-	6,838
Mexican peso	8,829	-	2,141	10,971	7,992	-	-	7,992
New Zealand dollar	10	6,430	2,228	8,667	-	-	-	-
South African rand	-	-	-	-	-	-	2,357	2,357
South Korean won	-	2,091	-	2,091	-	1,993	2,269	4,262
UK sterling	825	-	11,408	12,234	587	-	14,920	15,507
US dollar	8,367	15,946	4,677	28,990	32	28,499	1,092	29,623

## Notes to the Financial Statements cont.

### 15 Derivatives and other financial instruments (continued)

#### Fixed rate financial assets

	2018	2017
The weighted average interest rate of the fixed rate financial assets is:		
Australian dollar denominated	3.16%	3.60%
Euro denominated	0.00%	0.00%
Japanese yen denominated	n/a	0.06%
Mexican peso denominated	7.57%	6.94%
South African rand denominated	n/a	9.76%
US dollar denominated	2.62%	2.85%
The weighted average maturity of the fixed rate financial assets is:		
Australian dollar denominated	28.50 years	29.49 years
Euro denominated	1.20 years	2.19 years
Japanese yen denominated	n/a	8.42 years
Mexican peso denominated	2.88 years	4.70 years
South African rand denominated	n/a	26.36 years
US dollar denominated	7.48 years	28.15 years

In addition the Fund may hold floating rate financial assets that comprise floating rate notes, index-linked government bonds, bank balances, collateral balances, the receive legs of interest rate swaps and the receive legs of inflation rate swaps, the returns on which are uncertain. The return on floating rate notes is dependent on certain factors which may include future interest rates, specific bond terms and price indices over the remaining life of the bonds. The return on index-linked bonds is dependent on changes in respective national price indices over the remaining life of the bonds. Bank balances bear interest at rates based on LIBOR or the foreign currency equivalent. Collateral held on the Fund's behalf by counterparties bears interest based on LIBOR or the foreign currency equivalent. The return on floating rate legs of interest rate swaps is dependent on the specific base rate against which the swap has been taken. The return on floating rate legs of inflation rate swaps is dependent on future inflation rates over the remaining life of the swaps.

## Notes to the Financial Statements cont.

### 15 Derivatives and other financial instruments (continued)

#### Fixed rate financial liabilities

	2018	2017
The weighted average interest rate of the fixed rate financial liabilities is:		
Euro denominated	0.47%	0.00%
Japanese yen denominated	0.46%	0.45%
New Zealand dollar denominated	2.59%	n/a
South Korean won denominated	2.04%	2.01%
US dollar denominated	2.52%	1.80%
The weighted average maturity of the fixed rate financial liabilities is:		
Euro denominated	6.17 years	3.69 years
Japanese yen denominated	27.44 years	28.44 years
New Zealand dollar denominated	4.75 years	n/a
South Korean won denominated	18.62 years	19.62 years
US dollar denominated	4.32 years	3.20 years

In addition the Fund may hold floating rate financial liabilities that comprise overdrawn bank balances, collateral balances, the pay legs of interest rate swaps and the pay legs of inflation rate swaps, the payments on which are uncertain. Overdrawn bank balances pay interest at rates based on LIBOR or the foreign currency equivalent. Collateral held on behalf of counterparties pay interest based on LIBOR or the foreign currency equivalent. The payment on floating rate legs of interest rate swaps is dependent on the specific base rate against which the swap has been taken. The payment on floating rate legs of inflation rate swaps is dependent on future inflation rates over the remaining life of the swap.

### 16 Derivative Exposure

The exposure to derivative counterparties was:

Counterparty	2018					2017				
	Forward	Inflation	Interest	Cash	Total	Forward	Inflation	Interest	Cash	Total
	currency contracts £'000	rate swaps £'000	rate swaps £'000	collateral held £'000	exposure £'000	currency contracts £'000	rate swaps £'000	rate swaps £'000	collateral held £'000	exposure £'000
Barclays	-	-	254	(230)	24	146	-	310	(170)	286
Deutsche Bank	39	-	73	(135)	(24)	37	-	44	-	81
HSBC	47	-	-	(160)	(113)	63	-	-	-	63
JP Morgan Chase	-	-	-	-	-	132	-	-	(125)	7
Merrill Lynch	-	-	415	-	415	-	-	70	(135)	(65)
National Australia Bank	28	-	-	(135)	(107)	112	-	-	(130)	(18)
Royal Bank of Canada	-	-	-	-	-	33	-	-	-	33



## Notes to the Financial Statements cont.

### 16 Derivative Exposure (continued)

Collateral pledged on derivatives was:

Counterparty	2018			2017		
	Cash £'000	Bonds £'000	Total £'000	Cash £'000	Bonds £'000	Total £'000
HSBC	-	499	499	-	-	-
Merrill Lynch	130	-	130	-	-	-

In addition the Fund trades futures contracts through UBS. Fair value movements are offset by movements in the variation margin account which reduces the derivative counterparty exposure to nil. The Fund also trades cleared swaps through HSBC as clearing broker for LCH.Clearnet, the clearing house. The swap positions are collateralised and the collateral is held at the clearing house which reduces the counterparty exposure to nil.

### 17 Value at risk (VaR)

The market risk of the Fund's financial asset and liability positions is monitored by the Investment Adviser using VaR analysis. VaR analysis attempts to reflect the interdependencies between risk variables, unlike a traditional sensitivity analysis. VaR represents the potential losses from adverse changes in market factors for a specified time period and confidence level.

Model assumptions:

System	FIS Advanced Portfolio Technologies (APT)
VaR methodology:	variance covariance approach (with delta-adjustment)
Confidence level:	99%
Holding period:	1 month
Decay factor for exponential smoothing of historical market data:	nil
Historical observation period:	180 weeks

	2018 %	2017 %
Fund VaR:	9.99	10.04
Index VaR:	9.70	9.61

The VaR noted above indicates the VaR of the Fund's financial instruments, measured as the potential 1 month loss in value from adverse changes in equity prices, interest rates, inflation and foreign currency exchange rates, with a 99% confidence level.

In combination with a snapshot of the portfolio and benchmark constituents at a given point in time, the APT risk model uses 180 weeks of historic data to formulate a prediction of risk over a desired time period. In the case of VaR numbers, the risk model produces a 1-month prediction of 99% VaR. The decay factor for exponential smoothing of the historic market data refers to how the risk model uses more recent data in its historic data window compared to older data. Using a positive decay factor would mean that the risk model is placing more importance on more recent data than on older data in formulating its prediction of risk – this would result in the risk model being more short-term in nature, and increasingly geared to short-term recent events. The decay factor used in the APT risk model for calculating VaR numbers is nil. This means that each of the 180 weeks of historic data used by the risk model are treated with equal importance in the model's calculation of predicted risk. This means that the risk model's prediction of risk will be influenced by the average variances and covariances of portfolio and benchmark constituents over the past 3½ years.

#### Objectives and limitations of the VaR methodology

## Notes to the Financial Statements cont.

### 17 Value at risk (VaR) (continued)

The APT model uses statistical factor techniques to measure the effects of these risk variables on the value of the Fund. The VaR model is designed to measure market risk in a normal market environment.

The use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies significantly on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the given distribution assumption. VaR may also be under- or over-estimated due to the assumption placed on risk factors and the relationship between such factors for specific instruments.

Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level. In practice, the actual trading results will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation. Market risk positions are also subject to regular stress tests to ensure that the Fund would withstand an extreme market event.

# Distribution Table

Interim distribution for the period ended 31 December 2017

Group 1 : shares purchased prior to 1 October 2017

Group 2 : shares purchased 1 October 2017 to 31 December 2017

	Net Revenue	Equalisation	Distribution (paid/accumulated 28.02.18)	Distribution (paid/accumulated 28.02.17)
	31.12.17 pence per share	31.12.17 pence per share	31.12.17 pence per share	31.12.16 pence per share
B Accumulation				
Group 1	0.40000	-	0.40000	0.10000
Group 2	-	0.40000	0.40000	0.10000
B Income				
Group 1	0.50000	-	0.50000	0.05000
Group 2	0.11250	0.38750	0.50000	0.05000
C Accumulation				
Group 1	0.60000	-	0.60000	0.30000
Group 2	0.45480	0.14520	0.60000	0.30000
C Income				
Group 1	0.50000	-	0.50000	0.15000
Group 2	0.50000	-	0.50000	0.15000
G Accumulation				
Group 1	0.60000	-	0.60000	0.30000
Group 2	0.04657	0.55343	0.60000	0.30000

## Distribution Table cont.

Interim distributions for the period ended 31 March 2018

Group 1 : shares purchased prior to 1 January 2018

Group 2 : shares purchased 1 January 2018 to 31 March 2018

	Net Revenue	Equalisation	Distribution (paid/accumulated 31.05.18)	Distribution (paid/accumulated 31.05.17)
	31.03.18 pence per share	31.03.18 pence per share	31.03.18 pence per share	31.03.17 pence per share
<b>B Accumulation</b>				
Group 1	0.40000	-	0.40000	0.10000
Group 2	-	0.40000	0.40000	0.10000
<b>B Income</b>				
Group 1	0.50000	-	0.50000	0.05000
Group 2	-	0.50000	0.50000	0.05000
<b>C Accumulation</b>				
Group 1	0.60000	-	0.60000	0.30000
Group 2	-	0.60000	0.60000	0.30000
<b>C Income</b>				
Group 1	0.50000	-	0.50000	0.15000
Group 2	0.50000	-	0.50000	0.15000
<b>G Accumulation</b>				
Group 1	0.60000	-	0.60000	0.30000
Group 2	-	0.60000	0.60000	0.30000

## Distribution Table cont.

Interim distribution for the period ended 30 June 2018

Group 1 : share purchased prior to 1 April 2018

Group 2 : share purchased 1 April 2018 to 30 June 2018

	Net Revenue	Equalisation	Distribution (paid/accumulated 31.08.18)	Distribution (paid/accumulated 31.08.17)
	30.06.18 pence per share	30.06.18 pence per share	30.06.18 pence per share	30.06.17 pence per share
<b>B Accumulation</b>				
Group 1	0.40000	-	0.40000	0.10000
Group 2	-	0.40000	0.40000	0.10000
<b>B Income</b>				
Group 1	0.50000	-	0.50000	0.05000
Group 2	-	0.50000	0.50000	0.05000
<b>C Accumulation</b>				
Group 1	0.60000	-	0.60000	0.30000
Group 2	0.60000	-	0.60000	0.30000
<b>C Income</b>				
Group 1	0.50000	-	0.50000	0.15000
Group 2	0.50000	-	0.50000	0.15000
<b>G Accumulation</b>				
Group 1	0.60000	-	0.60000	0.30000
Group 2	-	0.60000	0.60000	0.30000

## Distribution Table cont.

Final distribution for the period ended 30 September 2018

Group 1 : shares purchased prior to 1 July 2018

Group 2 : shares purchased 1 July 2018 to 30 September 2018

	Net Revenue	Equalisation	Distribution (paid/accumulated 30.11.18)	Distribution (paid/accumulated 30.11.17)
	30.09.18 pence per share	30.09.18 pence per share	30.09.18 pence per share	30.09.17 pence per share
<b>B Accumulation</b>				
Group 1	1.91000	-	1.91000	1.48000
Group 2	0.42633	1.48367	1.91000	1.48000
<b>B Income</b>				
Group 1	1.57000	-	1.57000	1.69000
Group 2	0.58199	0.98801	1.57000	1.69000
<b>C Accumulation</b>				
Group 1	3.29000	-	3.29000	2.48000
Group 2	1.03901	2.25099	3.29000	2.48000
<b>C Income</b>				
Group 1	2.23000	-	2.23000	2.03000
Group 2	0.61500	1.61500	2.23000	2.03000
<b>G Accumulation</b>				
Group 1	2.64000	-	2.64000	1.84000
Group 2	0.48402	2.15598	2.64000	1.84000



# BAILLIE GIFFORD

## Baillie Gifford Active Long Gilt Plus Fund

a sub-fund of Baillie Gifford Bond Funds ICVC

*Annual Report and Financial Statements  
for the year ended 30 September 2018*





# Baillie Gifford Active Long Gilt Plus Fund

## Investment Objective

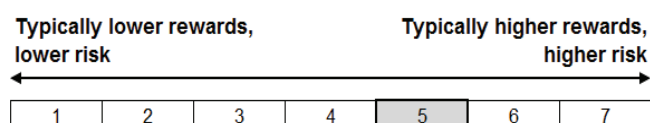
The Fund aims to produce a total return, through combined capital growth and income payment, before charges, that is on average 1.5% greater than the total return of the FTSE Actuaries UK Conventional Gilts Over 15 Years Index.

## Investment Policy

To invest mainly in UK government bonds. To invest mainly in UK government bonds. Currency forwards and derivatives, which are types of financial contracts, are used to protect or enhance the return of the Fund, including for investment purposes. Other bonds are used for investment purposes. The Fund is exposed to foreign currencies. We will assess performance of the Fund compared to the Index over rolling three year periods. There is no guarantee that a positive return will be achieved over rolling three year periods or any time period.

## 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 UK government bonds which generally provide higher rewards and higher risks than other investments such as cash.

The indicator does not take into account the following relevant material risks:

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.

The Fund has exposure to foreign currencies and changes in the rates of exchange will cause the value of any investment, and income from it, to fall as well as rise and you may not get back the amount invested.

Custody of assets involves a risk of loss if the custodian becomes insolvent or breaches duties of care.

Bonds issued by companies and governments may be adversely affected by changes in interest rates, expectations of inflation and a decline in the creditworthiness of the bond issuer. The issuers of bonds in which the Fund invests may not be able to pay the bond income as promised or could fail to repay the capital amount.

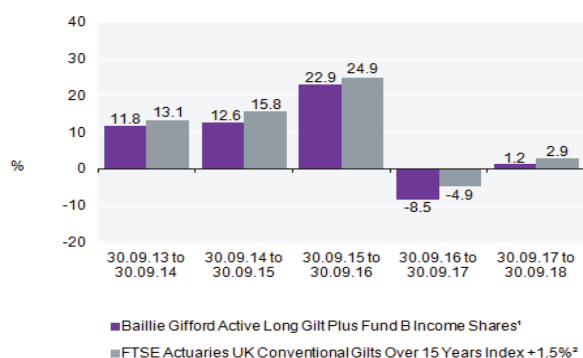
Derivatives may be used to obtain, increase or reduce exposure to assets and may result in the Fund being leveraged. This may result in greater movements (down or up) in the price of shares in the Fund. It is not our intention that the use of derivatives will significantly alter the overall risk profile of the Fund.

The result of the UK Referendum on membership of the European Union introduces elements of political uncertainty and may have practical consequences for the Fund. Developments will be closely monitored.

Further details of the risks associated with investing in the Fund can be found in the Prospectus which is available by contacting Client Relations or visiting our website.

# Investment Report

## Past Performance<sup>1</sup>



The performance figures shown in this graph are for Class B Income Shares. Performance figures reflect the ACD's annual fee of 0.35%, but exclude any initial charge paid. Please note these returns differ from the returns quoted 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 contacting Client Relations. You should be aware that past performance is not a guide to future performance.

For the year to 30 September 2018 the return on B Income Shares was 1.1%<sup>3</sup>, compared to the return on the FTSE Actuaries UK Conventional Gilts Over 15 Years Index + 1.5% of 2.9%<sup>2</sup>. The modest absolute return was driven by a slight increase in bond yields being offset by coupon income. The Fund benefited from its underweight positions in government bonds as the US Federal Reserve continued to raise interest rates at a faster pace than that expected by the market which caused bond prices globally to fall. On the other hand, the Fund's relative underperformance versus the Index over the 12 months stemmed from its positive stance on emerging market currencies, which performed poorly after President Trump's plans to adjust US tariffs on trade increased in scope and magnitude.

Expectations of continuing synchronised global growth during the first half of the investment period supported export and commodity-focused countries whilst the monetary policy stances of the major central banks remained very accommodative. The Fund's overweight positions in the currencies of Brazil, Malaysia and Russia performed well during this period. The announcement in November of wide-ranging US personal and corporate tax cuts caused bond prices to

weaken globally. This did however, support US growth and, given continuing low inflation, this helped to calm market nervousness about potential interest rate rises.

Concerns about US trade policy, as President Trump's threats to withdraw from NAFTA intensified and the imposition of more punitive tariffs on Chinese products, soured sentiment towards exporting countries over the summer. These, combined with localised confidence crises in Turkey and Argentina caused a sharp increase in market volatility and falls in emerging market asset prices. Electoral uncertainty in Brazil, as the two-horse race narrowed between the hard left and hard right candidates, dealt emerging market sentiment another blow, and the Fund's overweight positions in the currencies of Argentina and Brazil detracted from performance. Markets remain nervous as the US Federal Reserve looks set to carry on with its interest rate raising intentions, and the Fund no longer holds any exposure to emerging markets.

Strong economic growth in Norway, as a result of higher oil prices, lifted domestic investment and wages and benefited the Fund's overweight position in the Norwegian krone, which continues to contribute to Fund performance. Indications from Japan that the local economy may be growing quickly enough and that

<sup>1</sup>Source: FE, 10am dealing prices, income reinvested, after charges. <sup>2</sup>Source: FE and relevant underlying index provider, total return. Please see Disclaimer on page 296. <sup>3</sup>Source: Baillie Gifford & Co Limited, closing mid prices, income reinvested, after charges. You should be aware that past performance is not a guide to future performance.

## Investment Report cont.

inflation is becoming more sustainable have driven hopes that the central bank will start to remove stimulus, and this has helped Fund performance through its underweight position in Japanese bonds.

In the UK, the government's failure thus far to reach agreement with the EU on likely future trading arrangements has caused the pound and gilts to fluctuate without settling on any clear direction, whilst the Bank of England has signalled that it will most likely continue to raise interest rates despite economic activity being somewhat disappointing. The Fund's underweight position in gilts has contributed positively to performance, and is maintained in the expectation that yields will ultimately settle at a higher level once a late Brexit compromise is reached.

*Baillie Gifford & Co, 24 October 2018*

## Principal Bond Holdings as at 30 September 2018

Investment	Percentage of total Fund
UK Treasury 4% 22/01/2060	14.63
UK Treasury 4.25% 07/12/2046	12.81
UK Treasury 4.25% 7/12/2055	12.45
UK Treasury 4.25% 07/12/2049	10.80
UK Treasury 4.75% 07/12/2038	9.34
UK Treasury 4.5% 07/12/2042	8.56
UK Treasury 4.25% 07/03/2036	7.94
UK Treasury 4.25% 07/09/2039	7.89
UK Treasury 3.5% 22/07/2068	6.64
UK Treasury 2% 22/07/2020	2.00

## Material Portfolio Changes for the year ended 30 September 2018

Largest Purchases	Cost £'000	Largest Sales	Proceeds £'000
UK Treasury 4% 22/01/2060	3,636	UK Treasury 4% 22/01/2060	6,160
UK Treasury 4.25% 07/12/2046	2,790	UK Treasury 4.5% 07/12/2042	5,454
UK Treasury 4.25% 7/12/2055	2,743	UK Treasury 4.25% 07/12/2046	5,331
UK Treasury 4.25% 07/12/2049	2,323	UK Treasury 4.25% 7/12/2055	5,228
UK Treasury 4.25% 07/03/2036	2,296	UK Treasury 4.25% 07/12/2049	4,090
UK Treasury 4.75% 07/12/2038	2,029	UK Treasury 4.75% 07/12/2038	3,865
UK Treasury 4.5% 07/12/2042	1,858	UK Treasury 4.25% 07/03/2036	3,814
South Africa 8.25% 31/03/2032	1,734	UK Treasury 4.25% 07/09/2039	3,260
UK Treasury 4.25% 07/09/2039	1,712	UK Treasury 3.5% 22/07/2068	2,811
UK Treasury 3.5% 22/07/2068	1,479	South Africa 8.25% 31/03/2032	1,601

The largest purchases and sales of bonds have been shown.

# Portfolio Statement as at 30 September 2018

Stock description	Holding	Market value £'000	% of total net assets
<b>Fixed Income - 98.95% (96.22%)</b>			
<b>Sovereign Bonds - 98.95% (96.22%)</b>			
<b>Overseas Government Bonds - 4.32% (7.02%)</b>			
Australia 3% 21/03/2047	214,000	115	0.63
Mexico IL 4% 15/11/2040	10,000	257	1.42
New Zealand 2.5% IL 20/09/2035	409,000	244	1.35
US Treasury 3% 15/11/2045	226,000	167	0.92
<b>UK Government Bond - 94.63% (89.20%)</b>			
UK Treasury 1.5% 22/07/2047	312,900	284	1.57
UK Treasury 2% 22/07/2020	355,000	363	2.00
UK Treasury 3.5% 22/07/2068	770,800	1,204	6.64
UK Treasury 4% 22/01/2060	1,620,518	2,652	14.63
UK Treasury 4.25% 07/03/2036	1,058,000	1,438	7.94
UK Treasury 4.25% 07/09/2039	1,015,957	1,429	7.89
UK Treasury 4.25% 07/12/2046	1,544,697	2,321	12.81
UK Treasury 4.25% 07/12/2049	1,262,500	1,958	10.80
UK Treasury 4.25% 7/12/2055	1,370,739	2,257	12.45
UK Treasury 4.5% 07/12/2042	1,034,676	1,551	8.56
UK Treasury 4.75% 07/12/2038	1,141,404	1,693	9.34
<b>Derivatives - 0.52% (0.50%)</b>			
Forward currency contracts (see Table 1)		1	0.01
Futures contracts (see Table 2)		-	0.00
Interest rate swap contracts (see Table 3)		93	0.51
<b>Portfolio of investments</b>		<b>18,027</b>	<b>99.47</b>
<b>Net other assets - 0.53% (3.28%)</b>		<b>96</b>	<b>0.53</b>
<b>Net assets</b>		<b>18,123</b>	<b>100.00</b>

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

Unless otherwise stated the above holdings are in fixed interest securities.

Figures in brackets in the investment category headings refer to 30 September 2017.

## Portfolio Statement as at 30 September 2018 cont.

**Table 1: Unrealised gains/(losses) on open forward currency contracts**

Counterparty	Settlement	Buy	Buy Amount	Sell	Sell Amount	Unrealised gains/(losses) £'000	% of total net assets
Deutsche Bank	25/10/18	NOK	4,080,000	GBP	377,526	7	0.04
Deutsche Bank	29/11/18	GBP	368,710	EUR	413,000	-	0.00
Deutsche Bank	29/11/18	GBP	181,220	USD	238,000	(1)	0.00
HSBC	25/10/18	GBP	737,951	EUR	822,000	5	0.03
HSBC	25/10/18	NOK	3,950,000	GBP	365,497	6	0.03
JP Morgan Chase	22/11/18	GBP	208,474	MXN	5,142,000	-	0.00
JP Morgan Chase	29/11/18	GBP	365,486	USD	480,000	(1)	0.00
JP Morgan Chase	20/12/18	CHF	460,000	GBP	366,031	(3)	(0.02)
National Australia Bank	15/11/18	AUD	780,000	GBP	433,105	(1)	(0.01)
National Australia Bank	29/11/18	GBP	364,824	CAD	622,500	(4)	(0.02)
National Australia Bank	16/05/19	GBP	235,343	NZD	466,000	-	0.00
Royal Bank of Canada	01/11/18	JPY	48,300,000	GBP	332,570	(6)	(0.03)
Royal Bank of Canada	29/11/18	GBP	190,358	USD	250,000	(1)	(0.01)
Unrealised gains/(losses) on open forward currency contracts						1	0.01

**Table 2: Unrealised gains/(losses) on futures contracts**

Futures	Maturity	Notional	Unrealised gains/(losses) £'000	% of total net assets
Long Gilt Future 10 Year December 2018	31/12/18	4	-	0.00
US Ultra 10 Year Note Future December 2018	31/12/18	2	-	0.00
Unrealised gains/(losses) on futures contracts			-	0.00

## Portfolio Statement as at 30 September 2018 cont.

**Table 3: Unrealised gains/(losses) on open interest rate swap contracts**

Counterparty	Ccy	Termination	Notional	Fund pays	Fund receives	Unrealised gains/(losses) £'000	% of total net assets
Barclays	EUR	09/12/19	5,417,500	Euribor 6 Month	-0.0755%	8	0.04
Barclays	GBP	08/08/19	2,210,000	2.0425%	LIBOR 6 Month	(20)	(0.11)
Barclays	GBP	14/09/22	930,000	LIBOR 6 Month	0.881%	(17)	(0.09)
Barclays	GBP	20/02/23	1,825,000	LIBOR 6 Month	1.3908%	(1)	0.00
Barclays	JPY	31/08/46	43,000,000	0.397%	JPY LIBOR 6 Month	37	0.20
Deutsche Bank	GBP	04/11/35	770,000	LIBOR 6 Month	2.21%	51	0.28
Deutsche Bank	GBP	29/11/47	425,000	LIBOR 6 Month	1.5582%	(18)	(0.10)
Deutsche Bank	KRW	08/05/37	440,000,000	1.97%	KRW Certificate of Deposit 3 Month	10	0.06
Deutsche Bank	NZD	29/06/23	4,000,000	New Zealand Bank Bill 3 Month FRA	2.6175%	24	0.13
HSBC	EUR	27/11/24	1,050,000	Euribor 6 Month	0.4677%	(5)	(0.03)
JP Morgan Chase	GBP	29/11/47	850,000	1.5582%	LIBOR 6 Month	37	0.20
JP Morgan Chase	NZD	29/06/23	6,000,000	2.6175%	New Zealand Bank Bill 3 Month FRA	(36)	(0.20)
JP Morgan Chase	USD	22/01/23	1,380,000	USD LIBOR 3 Month	2.4632%	(25)	(0.14)
JP Morgan Chase	USD	22/01/23	4,150,000	USD LIBOR 3 Month	2.4632%	(75)	(0.41)
Merrill Lynch	EUR	27/11/24	2,100,000	0.4677%	Euribor 6 Month	10	0.06
Merrill Lynch	MXN	09/06/22	33,000,000	Mexico Interbank TIIE 28 Day	7.005%	(38)	(0.21)
Merrill Lynch	USD	22/01/23	8,300,000	2.4632%	USD LIBOR 3 Month	151	0.83
Unrealised gains/(losses) on open interest rate swap contracts						93	0.51



# Comparative Tables

## Comparative Table: B Accumulation Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	208.94	223.35	184.23
Return before operating charges*	3.29	(13.41)	40.66
Operating charges	(0.90)	(0.85)	(0.73)
Return after operating charges*	2.39	(14.26)	39.93
Distributions	(4.07)	(3.71)	(4.06)
Retained distributions on accumulation shares	4.07	3.56	3.25
<b>Closing net asset value per share</b>	<b>211.33</b>	<b>208.94</b>	<b>223.35</b>
*After direct transaction costs of:	0.00	0.00	0.00
<b>Performance:</b>			
Return after charges	1.14%	(6.45)%	21.23%
<b>Other Information:</b>			
Closing net asset value (£'000)	1,089	795	483
Closing number of shares	515,257	380,521	216,122
Operating charges	0.42% <sup>2</sup>	0.40%	0.39%
Direct transaction costs <sup>3</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	220.4	224.9	236.9
Lowest share price (pence)	205.9	199.3	175.7

## Comparative Tables cont.

### Comparative Table: B2 Accumulation Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Period Ended 30 September 2017 (pence per share)
<b>Change in net assets per share:</b>		
Opening net asset value per share	208.93	203.30 <sup>1</sup>
Return before operating charges*	3.26	6.33
Operating charges	(0.90)	(0.70)
Return after operating charges*	2.36	5.63
Distributions	(4.07)	(3.12)
Retained distributions on accumulation shares	4.07	3.12
<b>Closing net asset value per share</b>	<b>211.29</b>	<b>208.93</b>
*After direct transaction costs of:	0.00	0.00
<b>Performance:</b>		
Return after charges	1.13%	2.77%
<b>Other Information:</b>		
Closing net asset value (£'000)	3,105	2,349
Closing number of shares	1,469,601	1,124,443
Operating charges	0.42%	0.40%
Direct transaction costs <sup>3</sup>	0.00%	0.00%
<b>Prices:</b>		
Highest share price (pence)	220.4	220.3
Lowest share price (pence)	205.8	199.3

## Comparative Tables cont.

### Comparative Table: B Income Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	151.97	165.21	138.51
Return before operating charges*	2.42	(9.89)	30.32
Operating charges	(0.65)	(0.62)	(0.58)
Return after operating charges*	1.77	(10.51)	29.74
Distributions on income shares	(2.95)	(2.73)	(3.04)
<b>Closing net asset value per share</b>	<b>150.79</b>	<b>151.97</b>	<b>165.21</b>
*After direct transaction costs of:			
	0.00	0.00	0.01
<b>Performance:</b>			
Return after charges	1.16%	(6.43)%	21.03%
<b>Other Information:</b>			
Closing net asset value (£'000)	594	552	452
Closing number of shares	394,090	363,243	273,779
Operating charges	0.42% <sup>2</sup>	0.40%	0.39%
Direct transaction costs <sup>3</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	159.6	166.3	175.9
Lowest share price (pence)	149.3	147.4	132.1

## Comparative Tables cont.

### Comparative Table: C Accumulation Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	248.94	265.08	217.00
Return before operating charges*	3.87	(16.01)	48.17
Operating charges	(0.13)	(0.13)	(0.09)
Return after operating charges*	3.74	(16.14)	48.08
Distributions	(5.72)	(5.27)	(5.63)
Retained distributions on accumulation shares	5.72	5.27	5.63
<b>Closing net asset value per share</b>	<b>252.68</b>	<b>248.94</b>	<b>265.08</b>
*After direct transaction costs of:	0.00	0.00	0.01
<b>Performance:</b>			
Return after charges	1.50%	(6.09)%	22.15%
<b>Other Information:</b>			
Closing net asset value (£'000)	3	728	44,828
Closing number of shares	1,038	292,591	16,911,358
Operating charges	0.05%	0.05%	0.04%
Direct transaction costs <sup>3</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	263.2	266.9	280.9
Lowest share price (pence)	245.6	236.8	207.2

## Comparative Tables cont.

### Comparative Table: C Income Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	154.58	168.06	140.88
Return before operating charges*	2.46	(10.06)	30.85
Operating charges	(0.11)	(0.08)	(0.06)
Return after operating charges*	2.35	(10.14)	30.79
Distributions on income shares	(3.54)	(3.34)	(3.61)
<b>Closing net asset value per share</b>	<b>153.39</b>	<b>154.58</b>	<b>168.06</b>
 *After direct transaction costs of:	 0.00	 0.00	 0.01
<b>Performance:</b>			
Return after charges	1.52%	(6.12)%	21.35%
<b>Other Information:</b>			
Closing net asset value (£'000)	2	2	2
Closing number of shares	1,000	1,000	1,000
Operating charges	0.07%	0.05%	0.04%
Direct transaction costs <sup>3</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	162.5	169.2	179.0
Lowest share price (pence)	152.0	150.0	134.4

## Comparative Tables cont.

### Comparative Table: G Accumulation Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Period Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	248.09	264.75	227.10 <sup>4</sup>
Return before operating charges*	3.88	(15.91)	37.99
Operating charges	(0.79)	(0.75)	(0.34)
Return after operating charges*	3.09	(16.66)	37.65
Distributions	(5.08)	(4.65)	(2.46)
Retained distributions on accumulation shares	5.08	4.65	2.46
<b>Closing net asset value per share</b>	<b>251.18</b>	<b>248.09</b>	<b>264.75</b>
*After direct transaction costs of:	0.00	0.00	0.02
<b>Performance:</b>			
Return after charges	1.25%	(6.29)%	16.58%
<b>Other Information:</b>			
Closing net asset value (£'000)	13,330	36,214	6,509
Closing number of shares	5,307,095	14,596,711	2,458,799
Operating charges	0.31% <sup>5</sup>	0.30%	0.29%
Direct transaction costs <sup>3</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	261.9	266.5	280.6
Lowest share price (pence)	244.5	236.4	219.4

<sup>1</sup>Class B2 Accumulation Shares were launched on 1 December 2016.

<sup>2</sup>With effect from 1 November 2018 the ACD's annual fee for Class B Shares decreased from 0.35% to 0.15%. As at 30 September 2018, the ACD considered 0.22% to be a more indicative rate for the ongoing charges figure.

<sup>3</sup>The Fund incurs broker commission and transfer taxes/stamp duty as a necessary part of buying and selling the Fund's underlying investments in order to achieve the investment objective. Commission is also payable to the counterparty on the trading of future contracts.

A dilution adjustment is made whenever dealings in the shares of the Fund result in shares being issued or cancelled by the Company. The adjustment will take account of any spread between the buying and selling prices of the Fund's investments and the costs (which may include dealing charges and taxes) of acquiring or disposing of such investments. Please note that the direct transaction cost disclosures above do not include the dilution adjustment charges. For further details on dilution adjustment charges please see the General Information section.

<sup>4</sup>Class G Accumulation Shares were launched on 1 April 2016.

<sup>5</sup>With effect from 1 November 2018 the ACD's annual fee for Class G Shares decreased from 0.25% to 0.15%. As at 30 September 2018, the ACD considered 0.22% to be a more indicative rate for the ongoing charges figure.

# Financial Statements

## Statement of Total Return for the year ended 30 September 2018

		2018		2017	
	Notes	£'000	£'000	£'000	£'000
Income					
Net capital gains/(losses)	1		292		(3,825)
Revenue	3	895		1,035	
Expenses	4	(125)		(121)	
Net revenue before taxation		770		914	
Taxation	5	-		-	
Net revenue after taxation			770		914
Total return before distributions			1,062		(2,911)
Distributions	6		(770)		(914)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>292</b>		<b>(3,825)</b>

## Statement of Change in Net Assets Attributable to Shareholders for the year ended 30 September 2018

	2018		2017	
	£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>		<b>40,640</b>		<b>52,274</b>
Amounts receivable on issue of shares	24,957		3,576	
Amounts payable on cancellation of shares	(48,488)		(12,263)	
		(23,531)		(8,687)
Dilution adjustment		66		30
Change in net assets attributable to shareholders from investment activities		292		(3,825)
Retained distributions on accumulation shares		656		848
<b>Closing net assets attributable to shareholders</b>		<b>18,123</b>		<b>40,640</b>

## Financial Statements cont.

### Balance Sheet as at 30 September 2018

	Notes	2018 £'000	2017 £'000
<b>Assets:</b>			
Fixed assets:			
Investments	13	18,280	39,550
Current assets:			
Debtors	8	218	520
Cash and bank balances	9	303	1,089
<b>Total assets</b>		<b>18,801</b>	<b>41,159</b>
<b>Liabilities:</b>			
Investment liabilities	13	(253)	(244)
Creditors:			
Bank overdrafts	9	(153)	(12)
Distributions payable		(6)	(5)
Other creditors	10	(266)	(258)
<b>Total liabilities</b>		<b>(678)</b>	<b>(519)</b>
<b>Net assets attributable to shareholders</b>		<b>18,123</b>	<b>40,640</b>



# Notes to the Financial Statements

## 1 Net capital gains/(losses)

	2018	2017
	£'000	£'000
Non-derivative securities	357	(3,919)
Derivative contracts	218	(291)
Forward currency contracts	(257)	374
Currency gains/(losses)	(25)	12
Transaction costs	(1)	(1)
<b>Net capital gains/(losses)</b>	<b>292</b>	<b>(3,825)</b>

## 2 Purchases, sales and transaction costs

	2018	2017
	£'000	£'000
<b>Purchases and transaction costs</b>		
Gross purchases of bonds excluding transaction costs <sup>1</sup>	26,910	9,535
<b>Purchases including transaction costs</b>	<b>26,910</b>	<b>9,535</b>

<sup>1</sup>There were no transaction costs on the purchase of bonds.

	2018	2017
	£'000	£'000
<b>Sales and transaction costs</b>		
Gross sales of bonds excluding transaction costs <sup>1</sup>	48,276	17,614
<b>Sales net of transaction costs</b>	<b>48,276</b>	<b>17,614</b>

<sup>1</sup>There were no transaction costs on the sale of bonds.

	2018	2017
	£'000	£'000
<b>Transaction cost on derivative contracts</b>		
Commission on trading futures contracts	-	1

## Notes to the Financial Statements cont.

### 2 Purchases, sales and transaction costs (continued)

	2018		2017	
	£'000	% of average NAV	£'000	% of average NAV
<b>Portfolio transaction costs</b>				
Commissions	-	0.00	1	0.00
Taxes	-	0.00	-	0.00
<b>Total direct transaction costs</b>	<b>-</b>	<b>0.00</b>	<b>1</b>	<b>0.00</b>

	2018	2017
	%	%
Average portfolio dealing spread	0.02	0.01

The Fund incurs broker commission and transfer taxes/stamp duty as a necessary part of buying and selling the Fund's underlying investments in order to achieve the investment objective. Commission is also payable to the counterparty on the trading of futures contracts.

Dilution adjustment charges, which do not form part of the direct transaction costs disclosures above, may be incurred as a result of trading in underlying funds. For further details on dilution adjustment charges please see the General Information section.

Dealing spread is the difference in the buying and selling prices of the underlying investments. Dealing spreads vary considerably depending on the transaction value and market sentiment. The Fund may have holdings in single priced funds. The notional spread on these holdings is not included in the average dealing spread calculated for this Fund.

### 3 Revenue

	2018	2017
	£'000	£'000
Interest on debt securities	948	1,126
Bank interest	1	-
Swaps interest	(54)	(91)
<b>Total revenue</b>	<b>895</b>	<b>1,035</b>

## Notes to the Financial Statements cont.

### 4 Expenses

	2018 £'000	2017 £'000
<b>Payable to the ACD, associates of the ACD and agents of either of them:</b>		
ACD's periodic charge	103	99
<b>Payable to the Depositary, associates of the Depositary and agents of either of them:</b>		
Depositary's fee	5	6
Bank charges	2	1
	7	7
<b>Other expenses:</b>		
Audit fee	7	7
Professional fees	8	8
	15	15
<b>Total expenses</b>	<b>125</b>	<b>121</b>

### 5 Taxation

	2018 £'000	2017 £'000
<b>Analysis of charge in the year</b>		
Corporation tax	-	-
<b>Total taxation</b>	<b>-</b>	<b>-</b>

The Fund is subject to corporation tax at 20% (2017: 20%), however, the Fund is a bond fund making interest distributions and the interest distributions made by the Fund are allowable in arriving at the amount of revenue liable to tax. As a result, this has reduced the corporation tax liability of the Fund to nil.

The deduction of the interest distribution has been restricted to reflect the priority utilisation of the management expenses incurred by the Fund in the year, as per regulation 13(1A) of SI 2006/964. This results in no excess management expenses or interest distribution being carried forward.

The tax charge is explained as follows:

	2018 £'000	2017 £'000
Net revenue/(expense) before taxation	770	914
Net revenue before taxation multiplied by the standard rate of corporation tax of 20% (2017: 20%)	154	183
Effects of:		
Interest distributions	(154)	(183)
<b>Total taxation</b>	<b>-</b>	<b>-</b>

## Notes to the Financial Statements cont.

### 6 Distributions

	2018	2017
	£'000	£'000
Interim to 31 December	147	182
Interim to 31 March	140	187
Interim to 30 June	211	189
Final to 30 September	169	300
	<b>667</b>	<b>858</b>
Amounts deducted on cancellation of shares	230	86
Amounts added on issue of shares	(127)	(30)
<b>Total distributions</b>	<b>770</b>	<b>914</b>

The distributions take account of revenue transactions on the issue and cancellation of shares. Details of the distributions per share are set out in the Distribution Tables.

### 7 Reconciliation of net revenue to net distributions for the year

	2018	2017
	£'000	£'000
Net revenue after taxation for the year	770	914
<b>Net distributions for the year</b>	<b>770</b>	<b>914</b>

### 8 Debtors

	2018	2017
	£'000	£'000
Sales awaiting settlement	93	125
Accrued income	106	245
Collateral held by counterparties	-	150
Amounts due from clearing brokers	19	-
<b>Total debtors</b>	<b>218</b>	<b>520</b>

## Notes to the Financial Statements cont.

### 9 Cash and bank balances

	2018	2017
	£'000	£'000
Sterling amounts held at clearing houses and brokers	41	126
Foreign amounts held at clearing houses and brokers	18	14
Sterling bank accounts	244	949
	<b>303</b>	<b>1,089</b>
Sterling amounts held at clearing houses and brokers overdrawn	-	(12)
Foreign amounts held at clearing houses and brokers overdrawn	(23)	-
Sterling bank accounts overdrawn	(130)	-
<b>Total cash and bank balances</b>	<b>150</b>	<b>1,077</b>

### 10 Other creditors

	2018	2017
	£'000	£'000
Payable for cancellation of shares	16	63
Purchases awaiting settlement	5	21
Due to the ACD or associates	4	8
Due to the Depositary or associates	1	1
Collateral held on behalf of counterparty	155	140
Amounts due to clearing broker	70	14
Other accrued expenses	15	11
<b>Total other creditors</b>	<b>266</b>	<b>258</b>

### 11 Related party transactions

Baillie Gifford & Co Limited, as ACD, is regarded as a related party by virtue of the services provided to the Company. Baillie Gifford & Co Limited acts as principal in respect of all transactions of shares in the Company, except where stocks are transferred on the issue or cancellation of shares. The aggregate monies received through issue and paid on cancellation are disclosed in the Statement of Change in Net Assets Attributable to Shareholders. Amounts receivable and payable on the issue and cancellation of shares have been disclosed in notes 8 and 10 respectively.

Amounts paid to Baillie Gifford & Co Limited in respect of ACD fees are disclosed in note 4 with amounts due at the year end given in note 10.

#### Shares held by the ACD and associates of the ACD

The shares held by the ACD and associates of the ACD as a percentage of the Fund's NAV were:

	2018	2017
	%	%
ACD and associates of the ACD	0.02	0.88

## Notes to the Financial Statements cont.

### 12 Reconciliation of shares in issue

	2018					
	B Accumulation Shares	B2 Accumulation Shares	B Income Shares	C Accumulation Shares	C Income Shares	G Accumulation Shares
Opening shares in issue	380,521	1,124,443	363,243	292,591	1,000	14,596,711
Shares issued	1,453,567	678,433	95,362	21,899	1,000	8,086,962
Shares cancelled	(1,318,831)	(333,275)	(64,515)	(281,948)	(1,000)	(17,408,231)
Shares converted	-	-	-	(31,504)	-	31,653
<b>Closing shares in issue</b>	<b>515,257</b>	<b>1,469,601</b>	<b>394,090</b>	<b>1,038</b>	<b>1,000</b>	<b>5,307,095</b>

### 13 Basis of valuation

	2018		2017	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Level 1: Quoted prices	-	-	-	-
Level 2: Observable market data	18,280	(253)	39,550	(244)
Level 3: Unobservable data	-	-	-	-
<b>Total</b>	<b>18,280</b>	<b>(253)</b>	<b>39,550</b>	<b>(244)</b>

### 14 Credit ratings

Rating Block	2018		2017	
	Market value £'000	Percentage of total Fund	Market value £'000	Percentage of total Fund
Investment Grade	17,933	98.95	39,104	96.22
Total Bonds - Direct	17,933	98.95	39,104	96.22
Other	190	1.05	1,536	3.78
<b>Net Assets</b>	<b>18,123</b>	<b>100.00</b>	<b>40,640</b>	<b>100.00</b>

## Notes to the Financial Statements cont.

### 15 Derivatives and other financial instruments

#### Currency exposures

A proportion of the net assets of the Fund are denominated in currencies other than sterling, with the effect that the balance sheet and total return can be significantly affected by currency movements.

Currency	Net foreign currency assets/(liabilities)			Net foreign currency assets/(liabilities)		
	2018			2017		
	Monetary exposures £'000	Non-monetary exposures £'000	Total £'000	Monetary exposures £'000	Non-monetary exposures £'000	Total £'000
Argentine peso	-	-	-	-	1,221	1,221
Australian dollar	-	547	547	-	(814)	(814)
Canadian dollar	-	(369)	(369)	-	(1,203)	(1,203)
Chilean peso	-	-	-	-	(1,208)	(1,208)
Colombian peso	-	-	-	-	(812)	(812)
Euro	(5)	(1,088)	(1,093)	-	(830)	(830)
Japanese yen	-	364	364	-	67	67
Malaysian ringgit	-	-	-	-	817	817
Mexican peso	-	11	11	-	790	790
New Zealand dollar	-	(3)	(3)	-	-	-
Norwegian krona	-	756	756	-	1,186	1,186
Peruvian nuevo sol	-	-	-	-	805	805
Russian ruble	-	-	-	-	812	812
South African rand	-	-	-	-	(16)	(16)
South Korean won	-	10	10	-	(781)	(781)
Swiss franc	-	363	363	-	-	-
Turkish lira	-	-	-	-	479	479
UK sterling	(19)	17,959	17,940	1,074	38,332	39,406
US dollar	(33)	(523)	(556)	14	460	474

Short term debtors and creditors have not been disclosed.

## Notes to the Financial Statements cont.

### 15 Derivatives and other financial instruments (continued)

#### Interest rate risk profile of financial assets and financial liabilities

The interest rate risk profile of the Fund was:

Currency	2018				2017			
	Floating Rate financial assets £'000	Fixed Rate financial assets £'000	Financial assets not carrying interest £'000	Total £'000	Floating Rate financial assets £'000	Fixed Rate financial assets £'000	Financial assets not carrying interest £'000	Total £'000
Argentine peso	-	-	-	-	-	-	1,221	1,221
Australian dollar	-	115	432	547	-	458	-	458
Euro	1,871	5,765	-	7,636	-	-	-	-
Japanese yen	290	-	326	617	861	2,514	-	3,375
Malaysian ringgit	-	-	-	-	-	-	817	817
Mexican peso	257	1,315	-	1,572	767	2,733	-	3,500
New Zealand dollar	3,313	2,058	-	5,370	-	-	-	-
Norwegian krona	-	-	756	756	-	-	1,186	1,186
Peruvian nuevo sol	-	-	-	-	-	-	805	805
Russian ruble	-	-	-	-	-	-	812	812
South African rand	-	-	-	-	-	601	-	601
South Korean won	304	-	-	304	859	-	-	859
Swiss franc	-	-	363	363	-	-	-	-
Turkish lira	-	-	-	-	-	-	479	479
UK sterling	3,344	21,114	2,652	27,111	7,965	42,793	7,480	58,238
US dollar	6,383	4,307	-	10,690	9,316	1,027	-	10,343



## Notes to the Financial Statements cont.

### 15 Derivatives and other financial instruments (continued)

Currency	2018				2017			
	Floating Rate financial liabilities £'000	Fixed Rate financial liabilities £'000	Financial liabilities not carrying interest £'000	Total £'000	Floating Rate financial liabilities £'000	Fixed Rate financial liabilities £'000	Financial liabilities not carrying interest £'000	Total £'000
Australian dollar	-	-	-	-	-	-	1,272	1,272
Canadian dollar	-	-	369	369	-	-	1,203	1,203
Chilean peso	-	-	-	-	-	-	1,208	1,208
Colombian peso	-	-	-	-	-	-	812	812
Euro	5,767	1,861	1,102	8,729	-	-	830	830
Japanese yen	-	253	-	253	2,549	758	-	3,307
Mexican peso	1,353	-	209	1,562	2,709	-	-	2,709
New Zealand dollar	2,052	3,086	235	5,373	-	-	-	-
South African rand	-	-	-	-	-	-	617	617
South Korean won	-	294	-	294	-	840	800	1,640
UK sterling	4,253	3,043	1,875	9,171	6,626	6,778	5,428	18,832
US dollar	4,292	6,214	740	11,245	14	9,286	583	9,883

## Notes to the Financial Statements cont.

### 15 Derivatives and other financial instruments (continued)

#### Fixed rate financial assets

	2018	2017
	2018	2017
The weighted average interest rate of the fixed rate financial assets is:		
Australian dollar denominated	3.16%	3.60%
Euro denominated	0.08%	0.00%
Japanese yen denominated	n/a	0.06%
Mexican peso denominated	7.21%	6.94%
New Zealand dollar denominated	2.59%	n/a
South African rand denominated	n/a	9.76%
UK sterling denominated	1.77%	1.83%
US dollar denominated	2.55%	2.85%
The weighted average maturity of the fixed rate financial assets is:		
Australian dollar denominated	28.5 years	29.49 years
Euro denominated	2.00 years	2.19 years
Japanese yen denominated	n/a	8.42 years
Mexican peso denominated	3.70 years	4.70 years
New Zealand dollar denominated	4.75 years	n/a
South African rand denominated	n/a	26.36 years
UK sterling denominated	26.23 years	30.00 years
US dollar denominated	5.21 years	28.15 years

In addition the Fund may hold floating rate financial assets that comprise floating rate notes, index-linked government bonds, bank balances, collateral balances, the receive legs of interest rate swaps and the receive legs of inflation rate swaps, the returns on which are uncertain. The return on floating rate notes is dependent on certain factors which may include future interest rates, specific bond terms and price indices over the remaining life of the bonds. The return on index-linked bonds is dependent on changes in respective national price indices over the remaining life of the bonds. Bank balances bear interest at rates based on LIBOR or the foreign currency equivalent. Collateral foreign currency equivalent. The return on floating rate legs of interest rate swaps is dependent on the specific base rate against which the swap has been taken. The return on floating rate legs of inflation rate swaps is dependent on future inflation rates over the remaining life of the swaps.

## Notes to the Financial Statements cont.

### 15 Derivatives and other financial instruments (continued)

#### Fixed rate financial liabilities

	2018	2017
The weighted average interest rate of the fixed rate financial liabilities is:		
Euro denominated	0.47%	0.00%
Japanese yen denominated	0.46%	0.45%
New Zealand dollar denominated	2.59%	n/a
South Korean won denominated	2.04%	2.01%
UK sterling denominated	1.92%	2.00%
US dollar denominated	2.52%	1.82%

#### The weighted average maturity of the fixed rate financial liabilities is:

Euro denominated	6.17 years	3.69 years
Japanese yen denominated	27.44 years	28.44 years
New Zealand dollar denominated	4.75 years	n/a
South Korean won denominated	18.62 years	19.62 years
UK sterling denominated	8.44 years	1.86 years
US dollar denominated	4.32 years	3.31 years

In addition the Fund may hold floating rate financial liabilities that comprise overdrawn bank balances, collateral balances, the pay legs of interest rate swaps and the pay legs of inflation rate swaps, the payments on which are uncertain. Overdrawn bank balances pay interest at rates based on LIBOR or the foreign currency equivalent. Collateral held on behalf of counterparties pay interest based on LIBOR or the foreign currency equivalent. The payment on floating rate legs of interest rate swaps is dependent on the specific base rate against which the swap has been taken. The payment on floating rate legs of inflation rate swaps is dependent on future inflation rates over the remaining life of the swap.

### 16 Derivative Exposure

#### The exposure to derivative counterparties was:

Counterparty	2018				2017			
	Forward	Interest	Cash	Total	Forward	Interest	Cash	Total
	currency	rate	collateral	exposure	currency	rate	collateral	exposure
	contracts	swaps	held	£'000	contracts	swaps	held	£'000
Barclays	-	46	-	46	50	137	(10)	177
Deutsche Bank	7	86	(155)	(63)	14	103	(130)	(14)
HSBC	12	-	-	12	27	-	-	27
JP Morgan Chase	-	37	-	37	21	-	-	21
Merrill Lynch	-	161	-	161	-	24	-	24
National Australia Bank	-	-	-	-	38	-	-	38
Royal Bank of Canada	-	-	-	-	19	-	-	19
Royal Bank of Scotland	-	-	-	-	14	-	-	14

## Notes to the Financial Statements cont.

### 16 Derivative Exposure (continued)

Collateral pledged on derivatives was:

Counterparty	2018			2017		
	Cash £'000	Bonds £'000	Total £'000	Cash £'000	Bonds £'000	Total £'000
HSBC	-	96	96	150	-	150

In addition the Fund trades futures contracts through UBS. Fair value movements are offset by movements in the variation margin account which reduces the derivative counterparty exposure to nil. The Fund also trades cleared swaps through HSBC as clearing broker for LCH.Clearnet, the clearing house. The swap positions are collateralised and the collateral is held at the clearing house which reduces the counterparty exposure to nil.

### 17 Value at risk (VaR)

The market risk of the Fund's financial asset and liability positions is monitored by the Investment Adviser using VaR analysis. VaR analysis attempts to reflect the interdependencies between risk variables, unlike a traditional sensitivity analysis. VaR represents the potential losses from adverse changes in market factors for a specified time period and confidence level.

Model assumptions:

System	FIS Advanced Portfolio Technologies (APT)
VaR methodology:	variance covariance approach (with delta-adjustment)
Confidence level:	99%
Holding period:	1 month
Decay factor for exponential smoothing of historical market data:	nil
Historical observation period:	180 weeks

	2018	2017
	%	%
Fund VaR:	9.43	10.13
Index VaR:	9.50	10.16

The VaR noted above indicates the VaR of the Fund's financial instruments, measured as the potential 1 month loss in value from adverse changes in equity prices, interest rates, inflation and foreign currency exchange rates, with a 99% confidence level.

In combination with a snapshot of the portfolio and benchmark constituents at a given point in time, the APT risk model uses 180 weeks of historic data to formulate a prediction of risk over a desired time period. In the case of VaR numbers, the risk model produces a 1-month prediction of 99% VaR. The decay factor for exponential smoothing of the historic market data refers to how the risk model uses more recent data in its historic data window compared to older data. Using a positive decay factor would mean that the risk model is placing more importance on more recent data than on older data in formulating its prediction of risk – this would result in the risk model being more short-term in nature, and increasingly geared to short-term recent events. The decay factor used in the APT risk model for calculating VaR numbers is nil. This means that each of the 180 weeks of historic data used by the risk model are treated with equal importance in the model's calculation of predicted risk. This means that the risk model's prediction of risk will be influenced by the average variances and covariances of portfolio and benchmark constituents over the past 3½ years.

#### Objectives and limitations of the VaR methodology

The APT model uses statistical factor techniques to measure the effects of these risk variables on the value of the Fund. The VaR model is designed to measure market risk in a normal market environment.

## Notes to the Financial Statements cont.

### 17 Value at risk (VaR) (continued)

The use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies significantly on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the given distribution assumption. VaR may also be under- or over-estimated due to the assumption placed on risk factors and the relationship between such factors for specific instruments.

Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level. In practice, the actual trading results will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation. Market risk positions are also subject to regular stress tests to ensure that the Fund would withstand an extreme market event.

# Distribution Table

Interim distribution for the period ended 31 December 2017

Group 1 : shares purchased prior to 1 October 2017

Group 2 : shares purchased 1 October 2017 to 31 December 2017

	Net Revenue	Equalisation	Distribution (paid/accumulated 28.02.18)	Distribution (paid/accumulated 28.02.17)
	31.12.17 pence per share	31.12.17 pence per share	31.12.17 pence per share	31.12.16 pence per share
B Accumulation				
Group 1	0.60000	-	0.60000	0.60000
Group 2	0.36067	0.23933	0.60000	0.60000
B2 Accumulation				
Group 1	0.60000	-	0.60000	0.15000
Group 2	0.20219	0.39781	0.60000	0.15000
B Income				
Group 1	0.45000	-	0.45000	0.45000
Group 2	0.31986	0.13014	0.45000	0.45000
C Accumulation				
Group 1	1.00000	-	1.00000	1.10000
Group 2	0.72220	0.27780	1.00000	1.10000
C Income				
Group 1	0.55000	-	0.55000	0.55000
Group 2	0.55000	-	0.55000	0.55000
G Accumulation				
Group 1	0.95000	-	0.95000	0.95000
Group 2	0.56436	0.38564	0.95000	0.95000

## Distribution Table cont.

Interim distributions for the period ended 31 March 2018

Group 1 : shares purchased prior to 1 January 2018

Group 2 : shares purchased 1 January 2018 to 31 March 2018

	Net Revenue	Equalisation	Distribution (paid/accumulated 31.05.18)	Distribution (paid/accumulated 31.05.17)
	31.03.18 pence per share	31.03.18 pence per share	31.03.18 pence per share	31.03.17 pence per share
<b>B Accumulation</b>				
Group 1	0.60000	-	0.60000	0.60000
Group 2	-	0.60000	0.60000	0.60000
<b>B2 Accumulation</b>				
Group 1	0.60000	-	0.60000	0.60000
Group 2	-	0.60000	0.60000	0.60000
<b>B Income</b>				
Group 1	0.45000	-	0.45000	0.45000
Group 2	-	0.45000	0.45000	0.45000
<b>C Accumulation</b>				
Group 1	1.00000	-	1.00000	1.10000
Group 2	0.24858	0.75142	1.00000	1.10000
<b>C Income</b>				
Group 1	0.55000	-	0.55000	0.55000
Group 2	0.55000	-	0.55000	0.55000
<b>G Accumulation</b>				
Group 1	0.95000	-	0.95000	0.95000
Group 2	0.04339	0.90661	0.95000	0.95000

## Distribution Table cont.

Interim distribution for the period ended 30 June 2018

Group 1 : share purchased prior to 1 April 2018

Group 2 : share purchased 1 April 2018 to 30 June 2018

	Net Revenue	Equalisation	Distribution (paid/accumulated 31.08.18)	Distribution (paid/accumulated 31.08.17)
	30.06.18 pence per share	30.06.18 pence per share	30.06.18 pence per share	30.06.17 pence per share
<b>B Accumulation</b>				
Group 1	0.60000	-	0.60000	0.60000
Group 2	-	0.60000	0.60000	0.60000
<b>B2 Accumulation</b>				
Group 1	0.60000	-	0.60000	0.60000
Group 2	-	0.60000	0.60000	0.60000
<b>B Income</b>				
Group 1	0.45000	-	0.45000	0.45000
Group 2	-	0.45000	0.45000	0.45000
<b>C Accumulation</b>				
Group 1	1.00000	-	1.00000	1.10000
Group 2	0.04641	0.95359	1.00000	1.10000
<b>C Income</b>				
Group 1	0.55000	-	0.55000	0.55000
Group 2	0.55000	-	0.55000	0.55000
<b>G Accumulation</b>				
Group 1	0.95000	-	0.95000	0.95000
Group 2	-	0.95000	0.95000	0.95000



## Distribution Table cont.

Final distribution for the period ended 30 September 2018

Group 1 : shares purchased prior to 1 July 2018

Group 2 : shares purchased 1 July 2018 to 30 September 2018

	Net Revenue	Equalisation	Distribution (paid/accumulated 30.11.18)	Distribution (paid/accumulated 30.11.17)
	30.09.18 pence per share	30.09.18 pence per share	30.09.18 pence per share	30.09.17 pence per share
<b>B Accumulation</b>				
Group 1	2.27000	-	2.27000	1.76000
Group 2	0.95545	1.31455	2.27000	1.76000
<b>B2 Accumulation</b>				
Group 1	2.27000	-	2.27000	1.77000
Group 2	0.48740	1.78260	2.27000	1.77000
<b>B Income</b>				
Group 1	1.60000	-	1.60000	1.27000
Group 2	0.44759	1.15241	1.60000	1.27000
<b>C Accumulation</b>				
Group 1	2.72000	-	2.72000	1.97000
Group 2	2.72000	-	2.72000	1.97000
<b>C Income</b>				
Group 1	1.89000	-	1.89000	1.55000
Group 2	1.89000	-	1.89000	1.55000
<b>G Accumulation</b>				
Group 1	2.23000	-	2.23000	1.80000
Group 2	0.88439	1.34561	2.23000	1.80000

# BAILLIE GIFFORD

## Baillie Gifford Emerging Markets Bond Fund

a sub-fund of Baillie Gifford Bond Funds ICVC

*Annual Report and Financial Statements  
for the year ended 30 September 2018*



# Baillie Gifford Emerging Markets Bond Fund

## Investment Objective

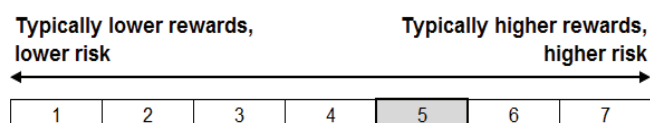
The Fund aims to produce a total return, through combined capital growth and income payment, before charges, greater than the combined capital growth and income of the J.P. Morgan GBI-EM Global Diversified Index unhedged in sterling.

## Investment Policy

To invest mainly in bonds issued by governments in emerging markets and/or issued in emerging market currencies. Derivatives, which are a type of financial contract, are used to protect or enhance the return of the Fund, including for investment purposes. The Fund is exposed to foreign currencies. We will assess performance of the Fund compared to the Index over rolling three year periods. There is no guarantee that a positive return will be achieved over rolling three year periods or any time period.

## 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 government bonds issued by emerging market borrowers which generally provide higher rewards and higher risks than other investments such as UK government bonds and cash.

The indicator does not take into account the following relevant material risks:

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.

The Fund has exposure to foreign currencies and changes in the rates of exchange will cause the value of any investment, and income from it, to fall as well as rise and you may not get back the amount invested.

Custody of assets, particularly in emerging markets, involves a risk of loss if the custodian becomes insolvent or breaches duties of care.

Bonds issued by companies and governments may be adversely affected by changes in interest rates, expectations of inflation and a decline in the creditworthiness of the bond issuer. The issuers of bonds in which the Fund invests, particularly in emerging markets, may not be able to pay the bond income as promised or could fail to repay the capital amount.

The Fund invests in emerging markets where difficulties in trading could arise, resulting in a negative impact on the value of your investment.

Derivatives may be used to obtain, increase or reduce exposure to assets and may result in the Fund being leveraged. This 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.

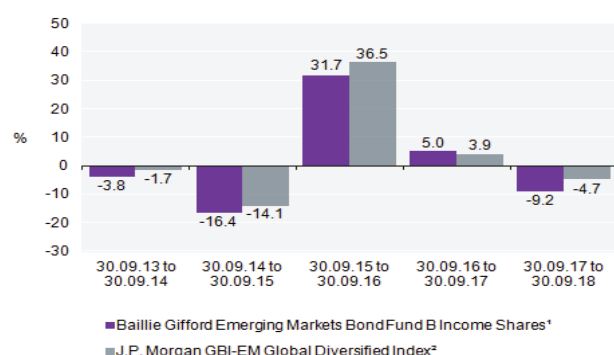
The result of the UK Referendum on membership of the European Union introduces elements of political uncertainty and may have practical consequences for the Fund. Developments will be closely monitored.

## Baillie Gifford Emerging Markets Bond Fund cont.

Further details of the risks associated with investing in the Fund can be found in the Prospectus which is available by contacting Client Relations or visiting our website.

# Investment Report

## Past Performance<sup>1</sup>



The performance figures shown in this graph are for Class B Income Shares. Performance figures reflect the ACD's annual fee of 0.4%, but exclude any initial charge paid. Please note these returns differ from the returns quoted 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 contacting Client Relations. You should be aware that past performance is not a guide to future performance.

For the year to 30 September 2018 the return on B Income Shares was -9.6%<sup>3</sup>, compared to the return on the J.P. Morgan GBI-EM Global Diversified Index unhedged in sterling of -4.7%<sup>2</sup>.

The return from income was offset by a move higher in bond yields and a weakening of emerging market currencies compared to sterling.

The Fund's positioning has remained fairly stable as we continue to believe that some emerging market currencies remain structurally undervalued after significant adjustment following various challenges over the last five years. The Fund's underperformance versus the Index was a result of losses in the Fund's overweight positions, including the Argentine peso and the Russian rouble. This was offset partially from gains from underweight positions in Turkish lira and Indian rupee.

Similarly, the Fund's underweight bond positions in Russia and Turkey performed well, as yields moved higher, as the political environment became more unstable. Underweight positions in Hungary and Czech Republic also contributed to performance as inflationary pressure increased following strong growth and tight labour markets. Unfortunately, this was offset by losses in bond positions mainly in Argentina and also in Egypt

and Indonesia as the countries' growth models were challenged by the US hiking cycle and the appreciation of the US dollar.

Over the period, there have been significant headwinds from higher US interest rates and a stronger US dollar, which has triggered the underperformance in emerging market bond prices. Emerging market growth slowed down slightly following the slowdown in Chinese growth, albeit from high levels. The investment cycle in the developed economies also moderated, again from a very strong starting point. Energy prices have outperformed over the period, while metal prices have underperformed significantly, creating a differentiated picture for the trade accounts of the different emerging economies.

Going forward, we believe the growth environment will remain marginally positive, as fiscal spending in US and China will be partially offset by the slowdown in investment spending following the increased trade uncertainty. The tightening in global financial conditions where the level of US interest rates is a key factor, should continue in a gradual manner, as inflation risks should remain limited. Increasingly flexible exchange rates, reduced external imbalances and higher levels of foreign currency reserves should enable most emerging markets

<sup>1</sup>Source: FE, 10am dealing prices, income reinvested, after charges. <sup>2</sup>Source: FE and relevant underlying index provider, total return. Please see Disclaimer on page 296. <sup>3</sup>Source: Baillie Gifford & Co Limited, closing mid prices, income reinvested, after charges. You should be aware that past performance is not a guide to future performance.

## Investment Report cont.

to weather the higher levels of volatility in global asset markets that we foresee as quantitative easing continues to be unwound.

*Sally Greig, 29 October 2018*

## Principal Bond Holdings as at 30 September 2018

Investment	Percentage of total Fund
Mexico 6.5% 09/06/2022	3.49
Colombia 7% 30/06/2032 (COP)	3.41
Peru 6.35% 12/08/2028	3.07
Indonesia 8.375% 15/03/2024	3.06
Indonesia 9% 15/03/2029	2.74
Nigeria T Bill 15/11/2018	2.48
Peru 6.15% 12/08/2032	2.39
City of Buenos Aires floating rate 22/02/2028	2.26
Thailand 4.875% 22/06/2029	2.23
Poland 2.5% 25/07/2027	2.12

## Material Portfolio Changes for the year ended 30 September 2018

Largest Purchases	Cost £'000	Largest Sales	Proceeds £'000
City of Buenos Aires floating rate 22/02/2028	35,679	Malaysia 3.654% 31/10/2019	35,050
Chile 4.5% 01/03/2026	30,966	Turkey 10.7% 17/08/2022	32,831
Greece 3.9% 30/01/2033	24,718	Chile 4.5% 01/03/2026	32,306
Colombia 7% 30/06/2032 (COP)	24,011	Russia 8.5% 17/09/2031	31,051
Russia 8.15% 03/02/2027	23,289	Greece 3.9% 30/01/2033	26,248
Mexico 6.5% 09/06/2022	22,193	Argentina IL 2.5% 22/07/2021	26,224
Peru 6.35% 12/08/2028	21,277	Hungary 3% 27/10/2027	25,329
Argentina 5.875% 11/01/28 (USD)	19,812	Brazil 10% 01/01/2025	24,162
South Africa 8.75% 31/01/2044	19,343	Romania 5.8% 26/07/2027	22,475
Argentina 7.625% 22/04/2046 (USD)	19,011	Argentina 7.625% 22/04/2046 (USD)	22,097

The largest purchases and sales of bonds have been shown.



# Portfolio Statement as at 30 September 2018

Stock description	Holding	Market value £'000	% of total net assets
<b>Fixed Income - 88.49% (96.31%)</b>			
<b>Argentina - 3.75% (8.23%)</b>			
Argentina 7.5% 22/04/2026 (USD)	15,488,000	10,588	1.49
City of Buenos Aires floating rate 22/02/2028	999,752,509	16,017	2.26
<b>Brazil - 1.77% (5.54%)</b>			
Brazil 10% 01/01/2021	64,694	12,547	1.77
<b>Chile - 3.47% (1.17%)</b>			
Chile 4.5% 01/03/2026	8,310,000,000	9,652	1.36
Chile 5% 01/03/2035	12,845,000,000	14,966	2.11
<b>Colombia - 7.01% (3.78%)</b>			
Colombia 6% 28/04/2028 (COP)	30,674,500,000	7,435	1.05
Colombia 7% 04/05/2022 (COP)	17,791,300,000	4,777	0.67
Colombia 7% 30/06/2032 (COP)	95,700,000,000	24,177	3.41
Colombia 7.5% 26/08/2026 (COP)	49,078,300,000	13,295	1.88
<b>Egypt - 6.48% (4.77%)</b>			
Egypt 14.8% 30/01/2023	120,428,000	4,531	0.64
Egypt 15.7% 07/11/2027	278,586,000	10,352	1.46
Egypt 15.9% 09/09/2024	177,240,000	6,794	0.96
Egypt 17.18% 09/05/2027	166,000,000	6,631	0.94
Egypt 8.5% 31/01/2047 (USD)	16,158,000	12,537	1.77
Egypt T Bill 05/03/2019	128,100,000	5,064	0.71
<b>Ghana - 1.59% (0.16%)</b>			
Ghana 18.25% 25/07/2022	29,454,000	4,289	0.61
Ghana 19% 02/11/26	36,820,000	5,252	0.74
Ghana 19.75% 15/03/2032 <sup>1</sup>	11,844,000	1,706	0.24
<b>Hungary - 0.75% (4.13%)</b>			
Hungary 3.25% 22/10/2031	2,050,900,000	5,300	0.75

## Portfolio Statement as at 30 September 2018 cont.

Stock description	Holding	Market value £'000	% of total net assets
<b>India - 1.80% (2.06%)</b>			
India 7.16% 20/05/2023	1,250,000,000	12,747	1.80
<b>Indonesia - 9.99% (7.93%)</b>			
Indonesia 10.5% 15/08/2030	61,313,000,000	3,694	0.52
Indonesia 6.125% 15/05/2028	122,000,000,000	5,493	0.78
Indonesia 7.5% 15/08/2032	146,000,000,000	7,052	1.00
Indonesia 8.375% 15/03/2024	416,000,000,000	21,697	3.06
Indonesia 8.375% 15/03/2034	148,000,000,000	7,654	1.08
Indonesia 8.75% 15/05/2031	108,000,000,000	5,768	0.81
Indonesia 9% 15/03/2029	357,000,000,000	19,450	2.74
<b>Malaysia - 3.88% (8.19%)</b>			
Malaysia 3.733% 15/06/2028	58,400,000	10,529	1.48
Malaysia 3.8% 17/08/2023	36,400,000	6,728	0.95
Malaysia 4.181% 15/07/2024	54,800,000	10,271	1.45
<b>Mexico - 9.82% (6.40%)</b>			
Mexico 4.5% IL 04/12/2025	526,000	13,936	1.97
Mexico 6.5% 09/06/2022	6,287,402	24,768	3.49
Mexico 7.75% 13/11/2042	1,640,000	6,471	0.91
Mexico 7.75% 29/05/2031	1,693,800	6,799	0.96
Mexico 8% 07/11/2047	1,600,000	6,474	0.91
Mexico 8% 07/12/2023	2,700,000	11,190	1.58
<b>Nigeria - 2.48% (0.00%)</b>			
Nigeria T Bill 15/11/2018 <sup>1</sup>	8,485,770,000	17,582	2.48
<b>Peru - 6.83% (5.53%)</b>			
Peru 6.15% 12/08/2032	71,472	16,946	2.39
Peru 6.35% 12/08/2028	88,765	21,793	3.07
Peru 6.95% 12/08/2031	22,253	5,659	0.80
Peru 8.2% 12/08/2026	14,615	4,018	0.57

## Portfolio Statement as at 30 September 2018 cont.

Stock description	Holding	Market value £'000	% of total net assets
<b>Poland - 5.38% (5.01%)</b>			
Poland 2.5% 25/07/2026	29,760,000	5,930	0.83
Poland 2.5% 25/07/2027	76,100,000	15,000	2.12
Poland 2.75% 25/04/2028	52,320,000	10,449	1.47
Poland 3.25% 25/07/2025	32,000,000	6,786	0.96
<b>Romania - 0.00% (2.63%)</b>			
<b>Russia - 4.47% (8.32%)</b>			
Russia 7% 25/01/2023	915,152,000	10,324	1.46
Russia 8.15% 03/02/2027	820,670,000	9,494	1.34
Russia 8.5% 17/09/2031	1,009,790,000	11,870	1.67
<b>Serbia - 1.17% (0.00%)</b>			
Serbia 5.875% 08/02/2028	1,030,000,000	8,321	1.17
<b>South Africa - 8.61% (5.12%)</b>			
South Africa 10.5% 21/12/2026	105,670,000	6,220	0.88
South Africa 6.25% 31/03/2036	284,530,000	10,985	1.55
South Africa 6.5% 28/02/41	281,688,896	10,637	1.50
South Africa 7% 28/02/2031	129,440,000	5,753	0.81
South Africa 8.25% 31/03/2032	284,160,000	13,833	1.95
South Africa 8.75% 31/01/2044	281,400,000	13,599	1.92
<b>Tajikistan - 1.99% (0.00%)</b>			
Tajikistan 7.125% 14/09/2027 (USD)	20,200,000	14,093	1.99
<b>Thailand - 6.37% (2.83%)</b>			
Thailand 2.125% 17/12/2026	450,390,000	10,267	1.45
Thailand 2.875% 17/06/2046	331,200,000	7,236	1.02
Thailand 3.625% 16/06/2023	289,400,000	7,265	1.02
Thailand 3.65% 20/06/2031	182,350,000	4,600	0.65
Thailand 4.875% 22/06/2029	566,100,000	15,790	2.23

## Portfolio Statement as at 30 September 2018 cont.

Stock description	Holding	Market value £'000	% of total net assets
<b>Turkey - 0.58% (11.18%)</b>			
Turkey 10.5% 15/01/2020	37,570,000	4,112	0.58
<b>Uganda - 0.00% (1.59%)</b>			
<b>United States - 0.00% (0.93%)</b>			
<b>Uruguay - 0.30% (0.81%)</b>			
Uruguay 9.875% 20/06/2022	92,260,000	2,113	0.30
<b>Derivatives - 0.09% (-0.44%)</b>			
Forward currency contracts (see Table 1)		3,327	0.47
Futures contracts (see Table 2)		-	0.00
Interest rate swap contracts (see Table 3)		(2,711)	(0.38)
Portfolio of investments		627,922	88.58
<b>Net other assets - 11.42% (4.13%)</b>		<b>80,922</b>	<b>11.42</b>
<b>Net assets</b>		<b>708,844</b>	<b>100.00</b>

<sup>1</sup>This stock has been valued using a single price source.

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

Unless otherwise stated the above holdings are in fixed interest securities.

Figures in brackets in the investment category headings refer to 30 September 2017.

**Table 1: Unrealised gains/(losses) on open forward currency contracts**

Counterparty	Settlement	Buy	Buy Amount	Sell	Sell Amount	Unrealised gains/(losses) £'000	% of total net assets
Barclays	11/10/18	HUF	2,200,000,000	GBP	6,057,769	3	0.00
Barclays	18/10/18	THB	521,000,000	GBP	11,800,332	550	0.08
Barclays	01/11/18	RUB	1,858,200,000	GBP	22,115,183	(466)	(0.07)
Barclays	15/11/18	TRY	56,330,000	GBP	6,934,267	16	0.00
Barclays	29/11/18	THB	604,000,000	GBP	14,409,256	(103)	(0.01)
Barclays	06/12/18	JPY	3,080,000,000	GBP	21,321,415	(476)	(0.07)

## Portfolio Statement as at 30 September 2018 cont.

Counterparty	Settlement	Buy	Buy Amount	Sell	Sell Amount	Unrealised gains/(losses) £'000	% of total net assets
Barclays	06/12/18	TRY	146,400,000	GBP	16,780,867	1,019	0.14
Barclays	20/12/18	GBP	7,063,784	CNH	64,000,000	(15)	0.00
Barclays	20/12/18	GBP	8,420,666	MYR	45,800,000	(27)	0.00
Barclays	20/12/18	NOK	148,400,000	GBP	13,671,697	296	0.04
Deutsche Bank	29/11/18	GBP	1,868,128	RON	9,800,000	2	0.00
HSBC	11/10/18	GBP	27,594,617	INR	2,557,000,000	632	0.09
HSBC	25/10/18	BRL	32,900,000	GBP	6,597,153	(300)	(0.04)
HSBC	25/10/18	CZK	910,400,000	GBP	31,464,961	(21)	0.00
HSBC	25/10/18	GBP	15,622,085	EGP	376,000,000	(323)	(0.05)
HSBC	15/11/18	COP	63,200,000,000	GBP	16,564,251	(289)	(0.04)
HSBC	15/11/18	GBP	17,908,861	USD	23,150,000	194	0.03
HSBC	22/11/18	GBP	965,096	ZAR	18,000,000	(1)	0.00
HSBC	29/11/18	CLP	6,280,000,000	GBP	7,253,842	28	0.00
HSBC	29/11/18	GBP	14,951,006	ARS	649,800,000	3,666	0.52
HSBC	06/12/18	AUD	12,800,000	GBP	7,065,066	16	0.00
HSBC	06/12/18	GBP	13,511,991	ZAR	269,000,000	(880)	(0.12)
HSBC	13/12/18	BRL	124,600,000	GBP	24,771,577	(1,082)	(0.15)
HSBC	13/12/18	GBP	14,294,339	EGP	345,680,000	(136)	(0.02)
HSBC	31/01/19	GBP	6,635,908	EGP	165,000,000	(129)	(0.02)
JP Morgan Chase	29/11/18	CLP	4,200,000,000	GBP	4,851,296	19	0.00
JP Morgan Chase	29/11/18	GBP	5,255,413	IDR	100,000,000,000	180	0.03
JP Morgan Chase	13/12/18	BRL	34,500,000	GBP	6,858,904	(300)	(0.04)
JP Morgan Chase	20/12/18	GBP	11,842,033	PHP	857,600,000	(194)	(0.03)
National Australia Bank	06/12/18	AUD	12,300,000	GBP	6,789,087	15	0.00
Royal Bank of Canada	25/10/18	MXN	33,800,000	GBP	1,337,977	40	0.01
Royal Bank of Canada	25/10/18	PLN	236,340,000	GBP	48,735,714	400	0.06
Royal Bank of Scotand	18/10/18	KZT	2,544,000,000	GBP	5,314,948	20	0.00
Royal Bank of Scotand	29/11/18	CLP	3,070,000,000	GBP	3,546,066	14	0.00
Royal Bank of Scotand	29/11/18	GBP	24,008,597	PEN	103,635,000	53	0.01
Royal Bank of Scotand	30/11/18	KZT	4,098,000,000	GBP	8,245,473	240	0.03
Standard Chartered Bank	25/10/18	CZK	12,600,000	GBP	435,477	-	0.00
Standard Chartered Bank	15/11/18	GBP	61,357,384	USD	79,314,000	666	0.09
Unrealised gains/(losses) on open forward currency contracts						3,327	0.47

## Portfolio Statement as at 30 September 2018 cont.

Table 2: Unrealised gains/(losses) on futures contracts

Futures	Maturity	Notional	Unrealised gains/(losses) £'000	% of total net assets
Long Gilt Future 10 Year December 2018	31/12/18	(109)	-	0.00
US 5 Year Note December 2018	04/01/19	(414)	-	0.00
Unrealised gains/(losses) on futures contracts			-	0.00

Table 3: Unrealised gains/(losses) on open interest rate swap contracts

Counterparty	Ccy	Termination	Notional	Fund pays	Fund receives	Unrealised gains/(losses) £'000	% of total net assets
Barclays	HUF	10/03/22	5,100,000,000	1.565%	Budapest Interbank Offered Rate 6 Month Index	67	0.01
Barclays	TRY	28/12/18	(166,819,680)	18.84%	-	(1,088)	(0.15)
	USD		26,640,000	-	USD LIBOR 3 Month		
Deutsche Bank	THB	20/03/28	633,163,334	Thailand 6 Month Reference Rate	2.325%	(297)	(0.04)
HSBC	BRL	02/01/20	124,000,000	7.635%	Brazil CETIP Interbank Deposit Rate	170	0.02
HSBC	BRL	03/01/22	65,500,000	Brazil CETIP Interbank Deposit Rate	8.4525%	(731)	(0.10)
HSBC	PLN	30/03/23	216,500,000	2.375%	Poland Warsaw Interbank Offer Bid Rates 6 Month	131	0.02
JP Morgan Chase	PLN	30/03/23	54,020,000	Poland Warsaw Interbank Offer Bid Rates 6 Month	2.375%	(33)	(0.01)
Merrill Lynch	BRL	02/01/20	310,000,000	7.260%	Brazil CETIP Interbank Deposit Rate	697	0.10
Merrill Lynch	CZK	02/10/20	2,625,000,000	Czech Interbank Rates 6 Month Intraday	2.21%	(13)	0.00
Merrill Lynch	MXN	09/06/22	1,400,000,000	Mexico Interbank TIIE 28 Day	7.005%	(1,614)	(0.23)
Unrealised gains/(losses) on open interest rate swap contracts						(2,711)	(0.38)

## Comparative Tables

### Comparative Table: A Income Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	103.74	105.13	83.00
Return before operating charges*	(9.06)	6.05	28.01
Operating charges	(1.38)	(1.56)	(1.29)
Return after operating charges*	(10.44)	4.49	26.72
Distributions on income shares	(6.08)	(5.88)	(4.59)
<b>Closing net asset value per share</b>	<b>87.22</b>	<b>103.74</b>	<b>105.13</b>
 *After direct transaction costs of:	 0.00	 0.00	 0.00
<b>Performance:</b>			
Return after charges	(10.06)%	4.10%	31.08%
<b>Other Information:</b>			
Closing net asset value (£'000)	265	260	287
Closing number of shares	303,847	250,409	272,714
Operating charges	1.40% <sup>1</sup>	1.45%	1.44%
Direct transaction costs <sup>3</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	105.7	112.5	108.4
Lowest share price (pence)	88.05	98.17	80.67

## Comparative Tables cont.

### Comparative Table: B Accumulation Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	134.02	127.87	96.67
Return before operating charges*	(11.90)	7.42	33.24
Operating charges	(0.91)	(1.02)	(0.80)
Return after operating charges*	(12.81)	6.40	32.44
Distributions	(8.87)	(8.16)	(6.20)
Retained distributions on accumulation shares	8.87	7.91	4.96
<b>Closing net asset value per share</b>	<b>121.21</b>	<b>134.02</b>	<b>127.87</b>
*After direct transaction costs of:	0.00	0.00	0.00
<b>Performance:</b>			
Return after charges	(9.56)%	4.81%	32.27%
<b>Other Information:</b>			
Closing net asset value (£'000)	1,186	1,073	460
Closing number of shares	978,311	800,778	359,964
Operating charges	0.70% <sup>2</sup>	0.76%	0.72%
Direct transaction costs <sup>3</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	136.5	140.4	129.8
Lowest share price (pence)	117.0	119.5	94.08



## Comparative Tables cont.

### Comparative Table: B Income Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	104.09	105.50	83.28
Return before operating charges*	(9.10)	6.06	28.15
Operating charges	(0.69)	(0.81)	(0.68)
Return after operating charges*	(9.79)	5.25	27.47
Distributions on income shares	(6.80)	(6.66)	(5.25)
<b>Closing net asset value per share</b>	<b>87.50</b>	<b>104.09</b>	<b>105.50</b>
 *After direct transaction costs of:	 0.00	 0.00	 0.00
<b>Performance:</b>			
Return after charges	(9.41)%	4.78%	31.72%
<b>Other Information:</b>			
Closing net asset value (£'000)	9,381	10,186	9,154
Closing number of shares	10,721,145	9,785,335	8,676,166
Operating charges	0.70% <sup>2</sup>	0.75%	0.73%
Direct transaction costs <sup>3</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	106.0	113.1	108.7
Lowest share price (pence)	88.55	98.61	81.03

## Comparative Tables cont.

### Comparative Table: C Accumulation Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	194.38	183.98	136.78
Return before operating charges*	(17.32)	10.71	47.40
Operating charges	(0.30)	(0.31)	(0.20)
Return after operating charges*	(17.62)	10.40	47.20
Distributions	(13.94)	(12.95)	(9.76)
Retained distributions on accumulation shares	13.94	12.95	9.76
<b>Closing net asset value per share</b>	<b>176.76</b>	<b>194.38</b>	<b>183.98</b>
*After direct transaction costs of:	0.00	0.00	0.00
<b>Performance:</b>			
Return after charges	(9.06)%	5.65%	34.51%
<b>Other Information:</b>			
Closing net asset value (£'000)	698,012	866,466	728,252
Closing number of shares	394,895,175	445,763,561	395,831,296
Operating charges	0.16%	0.16%	0.13%
Direct transaction costs <sup>3</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	198.0	203.5	186.3
Lowest share price (pence)	170.6	172.6	133.6

<sup>1</sup>With effect from 1 July 2018 the ACD's annual fee for Class A Shares decreased from 1.30% to 1.10%. As at 30 September 2018, the ACD considered 1.26% to be a more indicative rate for the ongoing charges figure.

<sup>2</sup>With effect from 1 July 2018 the ACD's annual fee for Class B Shares decreased from 0.60% to 0.40%. As at 30 September 2018, the ACD considered 0.56% to be a more indicative rate for the ongoing charges figure.

<sup>3</sup>The Fund incurs broker commission and transfer taxes/stamp duty as a necessary part of buying and selling the Fund's underlying investments in order to achieve the investment objective. Commission is also payable to the counterparty on the trading of future contracts.

A dilution adjustment is made whenever dealings in the shares of the Fund result in shares being issued or cancelled by the Company. The adjustment will take account of any spread between the buying and selling prices of the Fund's investments and the costs (which may include dealing charges and taxes) of acquiring or disposing of such investments. Please note that the direct transaction cost disclosures above do not include the dilution adjustment charges. For further details on dilution adjustment charges please see the General Information section.

# Financial Statements

## Statement of Total Return for the year ended 30 September 2018

		2018		2017	
	Notes	£'000	£'000	£'000	£'000
Income					
Net capital gains/(losses)	1		(137,496)		(17,128)
Revenue	3	62,357		53,581	
Expenses	4	(1,254)		(1,204)	
Net revenue before taxation		61,103		52,377	
Taxation	5	(1,918)		(1,302)	
Net revenue after taxation			59,185		51,075
Total return before distributions			(78,311)		33,947
Distributions	6		(59,185)		(51,075)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>(137,496)</b>		<b>(17,128)</b>

## Statement of Change in Net Assets Attributable to Shareholders for the year ended 30 September 2018

	2018		2017	
	£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>		<b>877,985</b>		<b>738,153</b>
Amounts receivable on issue of shares	199,903		251,935	
Amounts payable on cancellation of shares	(289,783)		(150,931)	
		(89,880)		101,004
Dilution adjustment		1,537		1,674
Change in net assets attributable to shareholders from investment activities		(137,496)		(17,128)
Retained distributions on accumulation shares		56,698		54,282
<b>Closing net assets attributable to shareholders</b>		<b>708,844</b>		<b>877,985</b>

## Financial Statements cont.

### Balance Sheet as at 30 September 2018

	Notes	2018 £'000	2017 £'000
<b>Assets:</b>			
Fixed assets:			
Investments	13	636,442	855,553
Current assets:			
Debtors	8	16,488	41,176
Cash and bank balances	9	70,365	16,360
<b>Total assets</b>		<b>723,295</b>	<b>913,089</b>
<b>Liabilities:</b>			
Investment liabilities	13	(8,520)	(13,848)
Creditors:			
Bank overdrafts	9	(327)	-
Distributions payable		(468)	(391)
Other creditors	10	(5,136)	(20,865)
<b>Total liabilities</b>		<b>(14,451)</b>	<b>(35,104)</b>
<b>Net assets attributable to shareholders</b>		<b>708,844</b>	<b>877,985</b>

# Notes to the Financial Statements

## 1 Net capital gains/(losses)

	2018	2017
	£'000	£'000
Non-derivative securities	(128,525)	(25,311)
Derivative contracts	(315)	(1,185)
Forward currency contracts	(4,454)	8,606
Currency gains/(losses)	(4,191)	769
Transaction costs	(11)	(7)
<b>Net capital gains/(losses)</b>	<b>(137,496)</b>	<b>(17,128)</b>

## 2 Purchases, sales and transaction costs

	2018	2017
	£'000	£'000
<b>Purchases and transaction costs</b>		
Gross purchases of bonds excluding transaction costs <sup>1</sup>	752,233	828,954
<b>Purchases including transaction costs</b>	<b>752,233</b>	<b>828,954</b>

<sup>1</sup>There were no transaction costs on the purchase of bonds.

	2018	2017
	£'000	£'000
<b>Sales and transaction costs</b>		
Gross sales of bonds excluding transaction costs <sup>1</sup>	850,304	662,022
<b>Sales net of transaction costs</b>	<b>850,304</b>	<b>662,022</b>

<sup>1</sup>There were no transaction costs on the sale of bonds.

	2018	2017
	£'000	£'000
<b>Transaction cost on derivative contracts</b>		
Commission on trading futures contracts	18	17

## Notes to the Financial Statements cont.

### 2 Purchases, sales and transaction costs (continued)

	2018		2017	
	£'000	% of average NAV	£'000	% of average NAV
<b>Portfolio transaction costs</b>				
Commissions	18	0.00	17	0.00
Taxes	-	0.00	-	0.00
<b>Total direct transaction costs</b>	<b>18</b>	<b>0.00</b>	<b>17</b>	<b>0.00</b>

	2018	2017
	%	%
Average portfolio dealing spread	0.29	0.16

The Fund incurs broker commission and transfer taxes/stamp duty as a necessary part of buying and selling the Fund's underlying investments in order to achieve the investment objective. Commission is also payable to the counterparty on the trading of futures contracts.

Dilution adjustment charges, which do not form part of the direct transaction costs disclosures above, may be incurred as a result of trading in underlying funds. For further details on dilution adjustment charges please see the General Information section.

Dealing spread is the difference in the buying and selling prices of the underlying investments. Dealing spreads vary considerably depending on the transaction value and market sentiment. The Fund may have holdings in single priced funds. The notional spread on these holdings is not included in the average dealing spread calculated for this Fund.

### 3 Revenue

	2018	2017
	£'000	£'000
Interest on debt securities	62,275	54,282
Bank interest	100	29
Swaps interest	(18)	(730)
<b>Total revenue</b>	<b>62,357</b>	<b>53,581</b>

## Notes to the Financial Statements cont.

### 4 Expenses

	2018	2017
	£'000	£'000
<b>Payable to the ACD, associates of the ACD and agents of either of them:</b>		
ACD's periodic charge	64	71
<b>Payable to the Depositary, associates of the Depositary and agents of either of them:</b>		
Depositary's fee	83	78
Bank charges	1,095	1,039
	1,178	1,117
<b>Other expenses:</b>		
Audit fee	7	6
Professional fees	5	10
	12	16
<b>Total expenses</b>	<b>1,254</b>	<b>1,204</b>

### 5 Taxation

	2018	2017
	£'000	£'000
<b>Analysis of charge in the year</b>		
Corporation tax	-	-
Overseas tax	1,918	1,302
<b>Total taxation</b>	<b>1,918</b>	<b>1,302</b>

The Fund is subject to corporation tax at 20% (2017: 20%), however, the Fund is a bond fund making interest distributions and the interest distributions made by the Fund are allowable in arriving at the amount of revenue liable to tax. As a result, this has reduced the corporation tax liability of the Fund to nil.

The deduction of the interest distribution has been restricted to reflect the priority utilisation of the management expenses incurred by the Fund in the year, as per regulation 13(1A) of SI 2006/964. This results in no excess management expenses or interest distribution being carried forward.

## Notes to the Financial Statements cont.

### 5 Taxation (continued)

The tax charge is explained as follows:

	2018	2017
	£'000	£'000
Net revenue/(expense) before taxation	61,103	52,377
Net revenue before taxation multiplied by the standard rate of corporation tax of 20% (2017: 20%)	12,221	10,475
Effects of:		
Interest distributions	(11,837)	(10,215)
Overseas offsettable withholding tax	(384)	(260)
Overseas tax on coupons	1,918	1,302
<b>Total taxation</b>	<b>1,918</b>	<b>1,302</b>

### 6 Distributions

	2018	2017
	£'000	£'000
Interim to 31 December	8,391	7,976
Interim to 31 March	9,304	6,704
Interim to 30 June	7,852	8,856
Final to 30 September	31,880	31,411
	<b>57,427</b>	<b>54,947</b>
Amounts deducted on cancellation of shares	5,834	1,654
Amounts added on issue of shares	(4,076)	(5,526)
<b>Total distributions</b>	<b>59,185</b>	<b>51,075</b>

The distributions take account of revenue transactions on the issue and cancellation of shares. Details of the distributions per share are set out in the Distribution Tables.

### 7 Reconciliation of net revenue to net distributions for the year

	2018	2017
	£'000	£'000
Net revenue after taxation for the year	59,185	51,075
<b>Net distributions for the year</b>	<b>59,185</b>	<b>51,075</b>



## Notes to the Financial Statements cont.

### 8 Debtors

	2018	2017
	£'000	£'000
Receivable for issue of shares	13	40
Sales awaiting settlement	2,449	15,481
Accrued income	11,458	15,688
Overseas tax recoverable	132	263
VAT recoverable	3	4
Collateral held by counterparties	1,540	9,700
Amounts due from clearing brokers	327	-
Amounts due from clearing house	543	-
Other debtors	23	-
<b>Total debtors</b>	<b>16,488</b>	<b>41,176</b>

### 9 Cash and bank balances

	2018	2017
	£'000	£'000
Sterling amounts held at clearing houses and brokers	675	60
Foreign amounts held at clearing houses and brokers	227	824
Sterling bank accounts	69,233	15,238
Foreign currency bank accounts	230	238
	<b>70,365</b>	<b>16,360</b>
Foreign amounts held at clearing houses and brokers overdrawn	(327)	-
<b>Total cash and bank balances</b>	<b>70,038</b>	<b>16,360</b>

### 10 Other creditors

	2018	2017
	£'000	£'000
Payable for cancellation of shares	-	309
Purchases awaiting settlement	767	15,035
Due to the ACD or associates	3	6
Due to the Depositary or associates	231	273
Collateral held on behalf of counterparty	4,120	5,230
Other accrued expenses	15	12
<b>Total other creditors</b>	<b>5,136</b>	<b>20,865</b>

## Notes to the Financial Statements cont.

### 11 Related party transactions

Baillie Gifford & Co Limited, as ACD, is regarded as a related party by virtue of the services provided to the Company. Baillie Gifford & Co Limited acts as principal in respect of all transactions of shares in the Company, except where stocks are transferred on the issue or cancellation of shares. The aggregate monies received through issue and paid on cancellation are disclosed in the Statement of Change in Net Assets Attributable to Shareholders. Amounts receivable and payable on the issue and cancellation of shares have been disclosed in notes 8 and 10 respectively.

Amounts paid to Baillie Gifford & Co Limited in respect of ACD fees are disclosed in note 4 with amounts due at the year end given in note 10.

#### Shares held by the ACD and associates of the ACD

The shares held by the ACD and associates of the ACD as a percentage of the Fund's NAV were:

	2018	2017
	%	%
ACD and associates of the ACD	96.60	97.66

### 12 Reconciliation of shares in issue

	2018			
	A Income Shares	B Accumulation Shares	B Income Shares	C Accumulation Shares
Opening shares in issue	250,409	800,778	9,785,335	445,763,561
Shares issued	109,140	657,943	1,949,676	105,397,834
Shares cancelled	(54,165)	(480,410)	(1,015,398)	(156,266,220)
Shares converted	(1,537)	-	1,532	-
<b>Closing shares in issue</b>	<b>303,847</b>	<b>978,311</b>	<b>10,721,145</b>	<b>394,895,175</b>

### 13 Basis of valuation

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
	£'000	£'000	£'000	£'000
Level 1: Quoted prices	-	-	-	-
Level 2: Observable market data	617,154	(8,520)	829,104	(13,848)
Level 3: Unobservable data <sup>1</sup>	19,288	-	26,449	-
<b>Total</b>	<b>636,442</b>	<b>(8,520)</b>	<b>855,553</b>	<b>(13,848)</b>

<sup>1</sup>For further information on the assets included in Level 3, as at 30 September 2018, please refer to the Portfolio Statement.

## Notes to the Financial Statements cont.

### 14 Credit ratings

Rating Block	2018		2017	
	Market value £'000	Percentage of total Fund	Market value £'000	Percentage of total Fund
Investment Grade	425,863	60.08	630,457	71.81
High Yield	201,444	28.42	215,094	24.50
Total Bonds - Direct	627,307	88.50	845,551	96.31
Other	81,537	11.50	32,434	3.69
<b>Net Assets</b>	<b>708,844</b>	<b>100.00</b>	<b>877,985</b>	<b>100.00</b>

### 15 Derivatives and other financial instruments

#### Currency exposures

A proportion of the net assets of the Fund are denominated in currencies other than sterling, with the effect that the balance sheet and total return can be significantly affected by currency movements.

## Notes to the Financial Statements cont.

### 15 Derivatives and other financial instruments (continued)

Currency	Net foreign currency assets/(liabilities)			Net foreign currency assets/(liabilities)		
	2018			2017		
	Monetary exposures £'000	Non-monetary exposures £'000	Total £'000	Monetary exposures £'000	Non-monetary exposures £'000	Total £'000
Argentine peso	-	4,732	4,732	-	53,263	53,263
Australian dollar	-	13,886	13,886	-	-	-
Brazilian real	-	49,229	49,229	-	96,725	96,725
Canadian dollar	-	-	-	-	(8,709)	(8,709)
Chilean peso	-	40,331	40,331	-	(9,013)	(9,013)
Chinese yuan	-	(7,079)	(7,079)	-	-	-
Colombian peso	81	65,958	66,039	77	37,453	37,530
Czech koruna	-	31,866	31,866	-	33,365	33,365
Egyptian pound	-	(3,768)	(3,768)	-	34,219	34,219
Euro	-	-	-	411	(22,437)	(22,026)
Ghanaian cedi	-	11,247	11,247	-	-	-
Hungarian forint	-	11,427	11,427	-	40,552	40,552
Indian rupee	34	(14,216)	(14,182)	37	(349)	(312)
Indonesian rupiah	115	65,734	65,849	124	71,068	71,192
Japanese yen	-	20,845	20,845	-	5	5
Kazakhstan tenge	-	13,820	13,820	-	31,093	31,093
Malaysian ringgit	-	19,080	19,080	-	79,200	79,200
Mexican peso	-	69,402	69,402	-	110,445	110,445
Nigerian naira	-	17,582	17,582	-	-	-
Norwegian krona	-	13,968	13,968	-	-	-
Peruvian nuevo sol	-	24,460	24,460	-	23,757	23,757
Philippine peso	-	(12,036)	(12,036)	-	(15,028)	(15,028)
Polish zloty	-	87,398	87,398	-	98,850	98,850
Romanian leu	-	(1,866)	(1,866)	-	25,666	25,666
Russian ruble	-	53,337	53,337	-	73,839	73,839
Serbian dinar	-	8,321	8,321	-	-	-
South African rand	-	45,670	45,670	-	60,495	60,495
South Korean won	-	-	-	-	(17,298)	(17,298)
Thai baht	-	71,518	71,518	-	65,045	65,045
Turkish lira	-	7,345	7,345	-	81,460	81,460
Ugandan shilling	-	-	-	-	13,921	13,921
UK sterling	67,871	(61,623)	6,249	19,768	(56,381)	(36,612)
Uruguayan peso	-	2,113	2,113	-	9,621	9,621
US dollar	227	(20,759)	(20,531)	414	(69,124)	(68,710)

Short term debtors and creditors have not been disclosed.

## Notes to the Financial Statements cont.

### 15 Derivatives and other financial instruments (continued)

#### Interest rate risk profile of financial assets and financial liabilities

The interest rate risk profile of the Fund was:

Currency	2018				2017			
	Floating Rate financial assets £'000	Fixed Rate financial assets £'000	Financial assets not carrying interest £'000	Total £'000	Floating Rate financial assets £'000	Fixed Rate financial assets £'000	Financial assets not carrying interest £'000	Total £'000
Argentine peso	16,017	-	-	16,017	39,430	2,216	11,617	53,263
Australian dollar	-	-	13,886	13,886	-	-	-	-
Brazilian real	84,633	24,992	36,546	146,171	95,655	149,570	45,658	290,883
Chilean peso	-	24,618	15,713	40,331	-	10,312	-	10,312
Colombian peso	81	49,684	16,275	66,039	25,965	33,157	4,553	63,675
Czech koruna	25	90,653	31,879	122,558	-	-	33,365	33,365
Egyptian pound	-	33,372	-	33,372	-	34,219	-	34,219
Euro	-	-	-	-	411	-	-	411
Ghanaian cedi	-	11,247	-	11,247	-	-	-	-
Hungarian forint	14,047	5,300	6,061	25,408	89,396	36,230	7,412	133,038
Indian rupee	34	12,747	-	12,781	37	36,901	-	36,938
Indonesian rupiah	115	70,810	-	70,925	124	69,621	1,448	71,193
Japanese yen	-	-	20,845	20,845	5,231	-	-	5,231
Kazakhstan tenge	-	-	13,820	13,820	-	-	31,093	31,093
Malaysian ringgit	-	27,528	-	27,528	-	71,908	7,293	79,201
Mexican peso	13,936	111,502	1,378	126,816	-	166,120	54,535	220,655
Nigerian naira	-	17,582	-	17,582	-	-	-	-
Norwegian krona	-	-	13,968	13,968	-	-	-	-
Peruvian nuevo sol	-	48,416	-	48,416	-	48,572	-	48,572
Polish zloty	45,342	49,370	49,135	143,848	-	44,010	54,841	98,851
Romanian leu	-	-	-	-	-	23,046	2,621	25,667
Russian ruble	-	31,688	21,649	53,337	-	73,076	763	73,839
Serbian dinar	-	8,321	-	8,321	-	-	-	-
South African rand	-	61,028	-	61,028	-	58,133	14,916	73,049
Thai baht	-	59,878	26,657	86,534	-	85,692	39,956	125,648
Turkish lira	-	4,112	24,750	28,862	-	98,165	-	98,165
Ugandan shilling	-	-	-	-	-	13,921	-	13,921
UK sterling	71,991	-	231,300	303,291	24,998	-	264,650	289,648
Uruguayan peso	-	2,113	-	2,113	-	7,067	2,554	9,621
US dollar	20,656	37,218	-	57,874	414	47,903	-	48,317

## Notes to the Financial Statements cont.

### 15 Derivatives and other financial instruments (continued)

Currency	2018				2017			
	Floating Rate financial liabilities £'000	Fixed Rate financial liabilities £'000	Financial liabilities not carrying interest £'000	Total £'000	Floating Rate financial liabilities £'000	Fixed Rate financial liabilities £'000	Financial liabilities not carrying interest £'000	Total £'000
Argentine peso	-	-	11,285	11,285	-	-	-	-
Brazilian real	13,176	83,766	-	96,942	105,457	88,701	-	194,158
Canadian dollar	-	-	-	-	-	-	8,709	8,709
Chilean peso	-	-	-	-	-	-	19,325	19,325
Chinese yuan	-	-	7,079	7,079	-	-	-	-
Colombian peso	-	-	-	-	-	26,145	-	26,145
Czech koruna	90,692	-	-	90,692	-	-	-	-
Egyptian pound	-	-	37,140	37,140	-	-	-	-
Euro	-	-	-	-	-	-	22,437	22,437
Hungarian forint	-	13,980	-	13,980	-	92,485	-	92,485
Indian rupee	-	-	26,963	26,963	18,942	-	18,308	37,250
Indonesian rupiah	-	-	5,076	5,076	-	-	-	-
Japanese yen	-	-	-	-	-	5,226	-	5,226
Malaysian ringgit	-	-	8,448	8,448	-	-	-	-
Mexican peso	57,414	-	-	57,414	110,210	-	-	110,210
Peruvian nuevo sol	-	-	23,956	23,956	-	-	24,816	24,816
Philippine peso	-	-	12,036	12,036	-	-	15,028	15,028
Polish zloty	11,540	44,909	-	56,450	-	-	-	-
Romanian leu	-	-	1,866	1,866	-	-	-	-
South African rand	-	-	15,358	15,358	12,554	-	-	12,554
South Korean won	-	-	-	-	-	-	17,298	17,298
Thai baht	15,017	-	-	15,017	60,603	-	-	60,603
Turkish lira	-	21,517	-	21,517	-	-	16,705	16,705
UK sterling	4,120	-	292,923	297,043	5,230	-	321,031	326,261
US dollar	-	-	78,405	78,405	-	-	117,028	117,028

## Notes to the Financial Statements cont.

### 15 Derivatives and other financial instruments (continued)

#### Fixed rate financial assets

	2018	2017
The weighted average interest rate of the fixed rate financial assets is:		
Argentine peso denominated	n/a	14.08%
Brazilian real denominated	9.00%	9.08%
Chilean peso denominated	4.80%	4.35%
Colombian peso denominated	6.90%	6.49%
Czech koruna denominated	2.21%	n/a
Egyptian pound denominated	18.61%	17.97%
Ghanaian cedi denominated	20.77%	n/a
Hungarian forint denominated	0.29%	1.31%
Indian rupee denominated	8.10%	6.61%
Indonesian rupiah denominated	8.15%	6.91%
Malaysian ringgit denominated	3.97%	3.48%
Mexican peso denominated	7.53%	6.94%
Nigerian naira denominated	12.82%	n/a
Peruvian nuevo sol denominated	5.72%	5.34%
Polish zloty denominated	2.97%	3.04%
Romanian leu denominated	n/a	4.10%
Russian ruble denominated	8.28%	7.53%
Serbian dinar denominated	4.77%	n/a
South African rand denominated	9.67%	9.25%
Thai baht denominated	2.73%	1.89%
Turkish lira denominated	23.86%	10.83%
Ugandan shilling denominated	n/a	29.41%
Uruguayan peso denominated	10.01%	7.68%
US dollar denominated	8.79%	5.78%

## Notes to the Financial Statements cont.

### 15 Derivatives and other financial instruments (continued)

	2018	2017
The weighted average maturity of the fixed rate financial assets is:		
Argentine peso denominated	n/a	9.05 years
Brazilian real denominated	2.77 years	4.58 years
Chilean peso denominated	12.90 years	8.42 years
Colombian peso denominated	10.60 years	9.36 years
Czech koruna denominated	2.01 years	n/a
Egyptian pound denominated	6.49 years	0.50 years
Ghanaian cedi denominated	7.38 years	n/a
Hungarian forint denominated	13.07 years	9.45 years
Indian rupee denominated	4.64 years	7.73 years
Indonesian rupiah denominated	10.01 years	12.27 years
Malaysian ringgit denominated	7.08 years	3.83 years
Mexican peso denominated	7.09 years	7.63 years
Nigerian naira denominated	0.13 years	n/a
Peruvian nuevo sol denominated	11.46 years	11.99 years
Polish zloty denominated	7.61 years	7.55 years
Romanian leu denominated	n/a	9.83 years
Russian ruble denominated	8.82 years	10.25 years
Serbian dinar denominated	9.37 years	n/a
South African rand denominated	17.79 years	16.88 years
Thai baht denominated	11.48 years	5.04 years
Turkish lira denominated	1.30 years	5.35 years
Ugandan shilling denominated	n/a	10.20 years
Uruguayan peso denominated	3.73 years	6.48 years
US dollar denominated	15.06 years	18.89 years

In addition the Fund may hold floating rate financial assets that comprise floating rate notes, index-linked government bonds, bank balances, collateral balances, the receive legs of interest rate swaps and the receive legs of inflation rate swaps, the returns on which are uncertain. The return on floating rate notes is dependent on certain factors which may include future interest rates, specific bond terms and price indices over the remaining life of the bonds. The return on index-linked bonds is dependent on changes in respective national price indices over the remaining life of the bonds. Bank balances bear interest at rates based on LIBOR or the foreign currency equivalent. Collateral held on the Fund's behalf by counterparties bears interest based on LIBOR or the foreign currency equivalent. The return on floating rate legs of interest rate swaps is dependent on the specific base rate against which the swap has been taken. The return on floating rate legs of inflation rate swaps is dependent on future inflation rates over the remaining life of the swaps.



## Notes to the Financial Statements cont.

### 15 Derivatives and other financial instruments (continued)

#### Fixed rate financial liabilities

	2018	2017
The weighted average interest rate of the fixed rate financial liabilities is:		
Brazilian real denominated	7.33%	7.88%
Colombian peso denominated	n/a	6.19%
Hungarian forint denominated	1.57%	1.54%
Japanese yen denominated	n/a	0.85%
Polish zloty denominated	2.38%	n/a
Turkish lira denominated	18.65%	n/a

#### The weighted average maturity of the fixed rate financial liabilities is:

Brazilian real denominated	1.26 years	1.26 years
Colombian peso denominated	n/a	9.78 years
Hungarian forint denominated	3.45 years	4.43 years
Japanese yen denominated	n/a	29.31 years
Polish zloty denominated	4.50 years	n/a
Turkish lira denominated	10.26 years	n/a

In addition the Fund may hold floating rate financial liabilities that comprise overdrawn bank balances, collateral balances, the pay legs of interest rate swaps and the pay legs of inflation rate swaps, the payments on which are uncertain. Overdrawn bank balances pay interest at rates based on LIBOR or the foreign currency equivalent. Collateral held on behalf of counterparties pay interest based on LIBOR or the foreign currency equivalent. The payment on floating rate legs of interest rate swaps is dependent on the specific base rate against which the swap has been taken. The payment on floating rate legs of inflation rate swaps is dependent on future inflation rates over the remaining life of the swap.

### 16 Derivative Exposure

The exposure to derivative counterparties was:

Counterparty	2018				2017			
	Forward	Interest	Cash	Total	Forward	Interest	Cash	Total
	currency	rate	collateral	exposure	currency	rate	collateral	exposure
	contracts	swaps	held	£'000	contracts	swaps	held	£'000
Barclays	1,884	67	(205)	1,746	234	5	-	239
Deutsche Bank	2	-	-	2	1,103	636	-	1,739
HSBC	4,537	301	(1,640)	3,198	1,323	445	-	1,768
JP Morgan Chase	199	-	(45)	154	548	-	(350)	198
Merrill Lynch	-	697	-	697	-	3,303	(2,100)	1,203
National Australia Bank	15	-	-	15	-	-	-	-
Royal Bank of Canada	440	-	(640)	(200)	876	-	-	876
Royal Bank of Scotland	327	-	(465)	(138)	1,265	-	-	1,265
Standard Chartered Bank	666	-	(1,125)	(459)	-	263	(2,780)	(2,517)

## Notes to the Financial Statements cont.

### 16 Derivative Exposure (continued)

Collateral pledged on derivatives was:

Counterparty	2018			2017		
	Cash £'000	Bonds £'000	Total £'000	Cash £'000	Bonds £'000	Total £'000
Barclays	-	-	-	2,310	-	2,310
Deutsche Bank	-	-	-	430	-	430
HSBC	-	-	-	2,590	-	2,590
Merrill Lynch	1,125	-	1,125	-	-	-
National Australia Bank	415	-	415	450	-	450
Royal Bank of Canada	-	-	-	2,710	-	2,710
Royal Bank of Scotland	-	-	-	1,210	-	1,210

In addition the Fund trades futures contracts through UBS. Fair value movements are offset by movements in the variation margin account which reduces the derivative counterparty exposure to nil.

### 17 Value at risk (VaR)

The market risk of the Fund's financial asset and liability positions is monitored by the Investment Adviser using VaR analysis. VaR analysis attempts to reflect the interdependencies between risk variables, unlike a traditional sensitivity analysis. VaR represents the potential losses from adverse changes in market factors for a specified time period and confidence level.

Model assumptions:

System	FIS Advanced Portfolio Technologies (APT)
VaR methodology:	variance covariance approach (with delta-adjustment)
Confidence level:	99%
Holding period:	1 month
Decay factor for exponential smoothing of historical market data:	nil
Historical observation period:	180 weeks

	2018	2017
	%	%
Fund VaR:	8.43	9.03
Index VaR:	7.77	8.05

The VaR noted above indicates the VaR of the Fund's financial instruments, measured as the potential 1 month loss in value from adverse changes in equity prices, interest rates, inflation and foreign currency exchange rates, with a 99% confidence level.

In combination with a snapshot of the portfolio and benchmark constituents at a given point in time, the APT risk model uses 180 weeks of historic data to formulate a prediction of risk over a desired time period. In the case of VaR numbers, the risk model produces a 1-month prediction of 99% VaR. The decay factor for exponential smoothing of the historic market data refers to how the risk model uses more recent data in its historic data window compared to older data. Using a positive decay factor would mean that the risk model is placing

## Notes to the Financial Statements cont.

### 17 Value at risk (VaR) (continued)

more importance on more recent data than on older data in formulating its prediction of risk – this would result in the risk model being more short-term in nature, and increasingly geared to short-term recent events. The decay factor used in the APT risk model for calculating VaR numbers is nil. This means that each of the 180 weeks of historic data used by the risk model are treated with equal importance in the model's calculation of predicted risk. This means that the risk model's prediction of risk will be influenced by the average variances and covariances of portfolio and benchmark constituents over the past 3½ years.

#### **Objectives and limitations of the VaR methodology**

The APT model uses statistical factor techniques to measure the effects of these risk variables on the value of the Fund. The VaR model is designed to measure market risk in a normal market environment.

The use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies significantly on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the given distribution assumption. VaR may also be under- or over-estimated due to the assumption placed on risk factors and the relationship between such factors for specific instruments.

Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level. In practice, the actual trading results will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation. Market risk positions are also subject to regular stress tests to ensure that the Fund would withstand an extreme market event.

## Distribution Tables

Interim distribution for the period ended 31 December 2017

Group 1 : shares purchased prior to 1 October 2017

Group 2 : shares purchased 1 October 2017 to 31 December 2017

	Net Revenue	Equalisation	Distribution (paid/accumulated 28.02.18)	Distribution (paid/accumulated 28.02.17)
	31.12.17 pence per share	31.12.17 pence per share	31.12.17 pence per share	31.12.16 pence per share
A Income				
Group 1	0.70000	-	0.70000	0.70000
Group 2	-	0.70000	0.70000	0.70000
B Accumulation				
Group 1	1.00000	-	1.00000	1.00000
Group 2	-	1.00000	1.00000	1.00000
B Income				
Group 1	0.85000	-	0.85000	0.85000
Group 2	-	0.85000	0.85000	0.85000
C Accumulation				
Group 1	2.00000	-	2.00000	2.00000
Group 2	-	2.00000	2.00000	2.00000

## Distribution Tables cont.

Interim distributions for the period ended 31 March 2018

Group 1 : shares purchased prior to 1 January 2018

Group 2 : shares purchased 1 January 2018 to 31 March 2018

	Net Revenue	Equalisation	Distribution (paid/accumulated 31.05.18)	Distribution (paid/accumulated 31.05.17)
	31.03.18 pence per share	31.03.18 pence per share	31.03.18 pence per share	31.03.17 pence per share
<b>A Income</b>				
Group 1	0.70000	-	0.70000	0.70000
Group 2	-	0.70000	0.70000	0.70000
<b>B Accumulation</b>				
Group 1	1.00000	-	1.00000	1.00000
Group 2	-	1.00000	1.00000	1.00000
<b>B Income</b>				
Group 1	0.85000	-	0.85000	0.85000
Group 2	-	0.85000	0.85000	0.85000
<b>C Accumulation</b>				
Group 1	2.00000	-	2.00000	2.00000
Group 2	-	2.00000	2.00000	2.00000

## Distribution Tables cont.

Interim distribution for the period ended 30 June 2018

Group 1 : share purchased prior to 1 April 2018

Group 2 : share purchased 1 April 2018 to 30 June 2018

	Net Revenue	Equalisation	Distribution (paid/accumulated 31.08.18)	Distribution (paid/accumulated 31.08.17)
	30.06.18 pence per share	30.06.18 pence per share	30.06.18 pence per share	30.06.17 pence per share
<b>A Income</b>				
Group 1	0.70000	-	0.70000	0.70000
Group 2	-	0.70000	0.70000	0.70000
<b>B Accumulation</b>				
Group 1	1.00000	-	1.00000	1.00000
Group 2	-	1.00000	1.00000	1.00000
<b>B Income</b>				
Group 1	0.85000	-	0.85000	0.85000
Group 2	-	0.85000	0.85000	0.85000
<b>C Accumulation</b>				
Group 1	2.00000	-	2.00000	2.00000
Group 2	-	2.00000	2.00000	2.00000

## Distribution Tables cont.

Final distribution for the period ended 30 September 2018

Group 1 : shares purchased prior to 1 July 2018

Group 2 : shares purchased 1 July 2018 to 30 September 2018

	Net Revenue	Equalisation	Distribution (paid/accumulated 30.11.18)	Distribution (paid/accumulated 30.11.17)
	30.09.18 pence per share	30.09.18 pence per share	30.09.18 pence per share	30.09.17 pence per share
<b>A Income</b>				
Group 1	3.98000	-	3.98000	3.60000
Group 2	0.51494	3.46506	3.98000	3.60000
<b>B Accumulation</b>				
Group 1	5.87000	-	5.87000	4.91000
Group 2	1.02926	4.84074	5.87000	4.91000
<b>B Income</b>				
Group 1	4.25000	-	4.25000	3.90000
Group 2	0.47895	3.77105	4.25000	3.90000
<b>C Accumulation</b>				
Group 1	7.94000	-	7.94000	6.95000
Group 2	0.91557	7.02443	7.94000	6.95000

# BAILLIE GIFFORD

## Baillie Gifford High Yield Bond Fund

a sub-fund of Baillie Gifford Bond Funds ICVC

*Annual Report and Financial Statements  
for the year ended 30 September 2018*





# Baillie Gifford High Yield Bond Fund

## Investment Objective

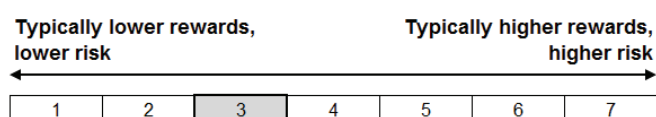
The Fund aims to produce a high level of return, through combined capital growth and income payment.

## Investment Policy

To invest mainly in sub-investment grade bonds. Derivatives, which are a type of financial contract, are used to protect or enhance the return of the Fund, including for investment purposes.

## 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 relevant material risks:

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 involves a risk of loss if the custodian becomes insolvent or breaches duties of care.

Bonds issued by companies and governments may be adversely affected by changes in interest rates, expectations of inflation and a decline in the creditworthiness of the bond issuer. The issuers of bonds in which the Fund invests may not be able to pay the bond income as promised or could fail to repay the capital amount.

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 result in the Fund being leveraged. This 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.

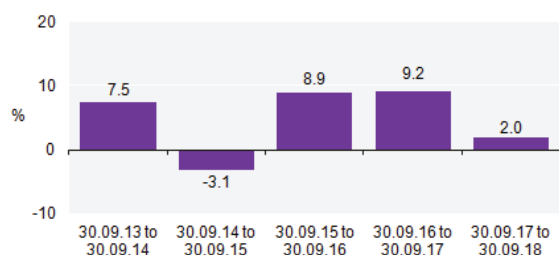
Market values for securities which are difficult to trade may not be readily available, and there can be no assurance that any value assigned to them will reflect the price the Fund might receive upon their sale.

The result of the UK Referendum on membership of the European Union introduces elements of political uncertainty and may have practical consequences for the Fund. Developments will be closely monitored.

Further details of the risks associated with investing in the Fund can be found in the Prospectus which is available by contacting Client Relations or visiting our website.

# Investment Report

## Past Performance<sup>1</sup>



The performance figures shown in this graph are for Class B Income Shares. Performance figures reflect the ACD's annual fee of 0.35%, but exclude any initial charge paid. Please note these returns differ from the returns quoted 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 contacting Client Relations. You should be aware that past performance is not a guide to future performance.

For the year to 30 September 2018 the return on B Income Shares was 2.0%<sup>2</sup>, compared to the return on the sterling-hedged return on the Bank of America Merrill Lynch European Currency High Yield Constrained Index of 1.9%<sup>3</sup>.

The year under review has seen many positive developments for the companies in the portfolio as well as some challenges, all against the backdrop of a market which has begun to cheapen from expensive starting levels. We have been active in monitoring the progress of the investments and disciplined in selling early where we have been disappointed. Happily, we have found a healthy supply of attractive new opportunities throughout the year.

The clearest endorsement of a high yield company's fundamental success is when their credit ratings are upgraded to investment grade. This happened to Aroundtown Properties' hybrid bonds and CNH Industrial's senior bonds during the year and Tesco Property Finance's bonds, by one rating agency, shortly after the period end. What is more, two of our hitherto unrated investments in Pension Insurance and Rothesay Life received credit ratings at investment grade levels during the year, validating our view that these are highly resilient businesses.

Enquest's operational progress has continued and with the tailwind of a stronger oil price their bonds have recovered close to par, a marked improvement on their trading levels even over the last year.

Where we have had any cause for concern at trading or governance issues among the portfolio companies we have acted, whether the holdings in question have been stalwarts such as Credit Acceptance and Digicel Limited or more recent investments such as Pizza Express and Aрызta Finance, all sold completely during the year.

We have been pleased with the diversity of new ideas that we have found, covering a broad spectrum of UK, European and American companies in industries old and new, from the maker of Lycra to the Pinewood film studios where some of the world's biggest movie franchises are brought to life.

Given the apparently late stage of this credit cycle we are focused on maintaining the quality of the portfolio, to be well placed for whatever the future may hold.

*Robert Baltzer and Lucy Isles, 18 October 2018*

<sup>1</sup>Source: FE, 10am dealing prices, income reinvested, after charges. <sup>2</sup>Source: Baillie Gifford & Co Limited, closing mid prices, income reinvested, after charges. <sup>3</sup>Source: FE and relevant underlying index provider, total return. Please see Disclaimer on page 296. You should be aware that past performance is not a guide to future performance.

## Principal Bond Holdings as at 30 September 2018

Investment	Percentage of total Fund
Aroundtown Properties 3.75% Perp	2.27
Phoenix Life 7.25% 2021 Perp	2.03
International Game Tech 4.75% 2023	2.00
Unicredit 6.95% 2022	1.89
Darling Ingredients 3.625% 2026	1.80
Inmarsat 4.875% 2022 (144A)	1.75
Elis 1.875% 2023	1.74
Ardagh Packaging 2.75% 2024	1.68
Softbank 5% 2028	1.65
Graham Holdings 5.75% 2026 (144A)	1.59

## Material Portfolio Changes for the year ended 30 September 2018

Largest Purchases	Cost £'000	Largest Sales	Proceeds £'000
Elis 1.875% 2023	8,128	Telecom Italia 3.625% 2026	8,663
Darling Ingredients 3.625% 2026	7,985	Aryzta Finance 4.5% 2019	6,892
Arqiva Group 6.75% 2023	7,086	Elis 2.875% 2026	6,620
Graham Holdings 5.75% 2026 (144A)	6,969	Moy Park 6.25% 2021	6,551
Lycra 5.375% 2023	6,793	Mercury Bond 8.25% 2021	6,344
Elis 2.875% 2026	6,474	Conduent 10.5% 2024 (144A)	6,226
James Hardie 4.75% 2025 (144A)	6,441	Virgin Media 5% 2027	5,746
Residomo 3.375% 2024	6,190	Darling Ingredients 4.75% 2022	5,627
WEPA 3.75% 2024	5,974	Old Mutual 8% 2021	4,782
Thomas Cook 3.875% 2023	5,722	Digicel Limited 6.75% 2023	4,750

The largest purchases and sales of bonds have been shown.

## Portfolio Statement as at 30 September 2018

Stock description	Holding	Market value £'000	% of total net assets
<b>Automotive - 6.29% (5.87%)</b>			
Adient 3.5% 2024	4,653,000	3,854	0.84
Faurecia 3.625% 2023	4,330,000	4,003	0.87
Garrett Motion 5.125% 2026	5,150,000	4,514	0.99
Goodyear 3.75% 2023	4,330,000	3,948	0.86
JLR 3.875% 2023	2,804,000	2,669	0.58
LKQ 3.625% 2026	600,000	543	0.12
LKQ Corp 3.875% 2024	5,418,000	5,111	1.12
Nemak 3.25% 2024	4,571,000	4,158	0.91
<b>Banking - 2.89% (1.84%)</b>			
Sainsbury Bank 6% 2022/27	4,477,000	4,585	1.00
Unicredit 6.95% 2022	8,463,000	8,664	1.89
<b>Basic Industry - 7.83% (5.07%)</b>			
Cemex 2.75% 2024	5,320,000	4,717	1.03
Cemex 4.375% 2023	5,604,000	5,171	1.13
James Hardie 4.75% 2025 (144A)	7,852,000	5,803	1.27
James Hardie Industries 3.625% 2026	3,115,000	2,806	0.61
Sappi 4% 2023	6,676,000	6,140	1.34
SNF 2.875% 2023	6,637,000	5,988	1.31
WEPA 3.75% 2024	5,964,000	5,251	1.14
<b>Capital Goods - 9.22% (10.37%)</b>			
Ardagh Packaging 2.75% 2024	8,505,000	7,683	1.68
Ardagh Packaging 4.125% 2023	6,782,000	6,290	1.37
Ball Corp 4.375% 2023	5,160,000	5,207	1.14
Belden 2.875% 2025	5,949,000	5,258	1.15
CNH Industrial 2.875% 2023	4,279,000	4,094	0.89
Colfax 3.25% 2025	5,556,000	5,013	1.09
Sealed Air 4.5% 2023	5,616,000	5,652	1.23
Senvion 3.875% 2022	3,851,000	3,068	0.67
<b>Commercial Mortgage Backed - 0.06% (1.83%)</b>			
Deco 12-UK 4 Class F <sup>1</sup>	1,133,707	-	0.00

## Portfolio Statement as at 30 September 2018 cont.

Stock description	Holding	Market value £'000	% of total net assets
Tesco Property Finance 3 5.744% 2040	251,000	278	0.06
<b>Consumer Cyclical - 1.61% (2.73%)</b>			
J Sainsbury 6.5% 2020 Perp	4,007,000	4,255	0.93
Liberty Interactive 4% 2029 Convertible	5,880,000	3,122	0.68
<b>Consumer Goods - 1.01% (1.54%)</b>			
Herbalife Nutrition 7.25% 2026 144A	5,935,000	4,639	1.01
<b>Consumer Non-Cyclical - 0.00% (1.56%)</b>			
<b>Energy - 1.57% (1.17%)</b>			
Enquest 7% 2022 PIK (GBP)	1,711,812	1,623	0.36
Enquest 7% 2022 PIK (USD) (144A)	2,764,205	2,029	0.44
Sunpower 4% 2023 Convertible	5,500,000	3,542	0.77
<b>Financial Services - 2.61% (3.68%)</b>			
Allfunds 4.125% 2024 PIK	4,964,196	4,412	0.96
Softbank 5% 2028	8,485,000	7,555	1.65
<b>Health Care - 2.13% (2.74%)</b>			
Grifols Worldwide 3.2% 2025	5,677,000	5,125	1.12
IMS Health 3.25% 2025	5,116,000	4,637	1.01
<b>Insurance - 7.36% (9.18%)</b>			
Brit Insurance 6.625% 2030	5,010,000	5,122	1.12
Hiscox 6.125% 2025/45	3,577,000	3,817	0.83
Pension Insurance 6.5% 2024	5,645,000	6,109	1.33
Pension Insurance 8% 2026	2,529,000	2,974	0.65
Phoenix Life 7.25% 2021 Perp	8,750,000	9,279	2.03
Rothesay Life 8% 2025	5,369,000	6,419	1.40
<b>Leisure - 7.33% (5.34%)</b>			
Cirsa 6.25% 2023	5,160,000	4,754	1.04
Codere 6.75% 2021	7,475,000	6,275	1.37

## Portfolio Statement as at 30 September 2018 cont.

Stock description	Holding	Market value £'000	% of total net assets
International Game Tech 4.75% 2023	9,522,000	9,147	2.00
Intralot 6.75% 2021	4,517,000	3,318	0.72
Pure Gym 6.375% 2025	4,495,000	4,624	1.01
Travelodge 8.5% 2023	6,398,000	5,447	1.19
<b>Media - 7.98% (8.37%)</b>			
Banijay 4% 2022	1,000,000	922	0.20
Graham Holdings 5.75% 2026 (144A)	9,230,000	7,268	1.59
Netflix 3.625 2027	7,422,000	6,519	1.42
Perform Group 8.5% 2020	5,592,000	5,669	1.24
Townsquare 6.5% 2023 (144A)	3,472,000	2,496	0.54
UPC 4% 2027	3,794,000	3,134	0.68
Virgin Media 5% 2027	4,627,000	4,604	1.01
Virgin Media 5.5% 2024	1,123,000	1,126	0.25
Ziggo 3.75% 2025	5,400,000	4,809	1.05
<b>Real Estate - 4.50% (2.77%)</b>			
Aroundtown Properties 3.75% Perp	11,500,000	10,388	2.27
Pinewood 3.75% 2023	4,495,000	4,493	0.98
Residomo 3.375% 2024	6,405,000	5,748	1.25
<b>Retail - 9.16% (7.67%)</b>			
Co-operative Group 6.25% 2026	4,177,000	4,929	1.07
First Cash 5.375% 2024 (144A)	3,490,000	2,689	0.59
Hanesbrands 3.5% 2024	5,755,000	5,352	1.17
Iceland Foods 4.625% 2025	4,835,000	4,462	0.97
L Brands 6.875% 2035	9,277,000	6,040	1.32
Lycra 5.375% 2023	7,580,000	6,583	1.44
Sally 5.625% 2025	8,928,000	6,574	1.43
Travis Perkins 4.5% 2023	5,420,000	5,360	1.17
<b>Services - 7.80% (4.95%)</b>			
Aramark 3.125% 2025	3,782,000	3,505	0.77
Darling Ingredients 3.625% 2026	9,030,000	8,266	1.80
Elis 1.875% 2023	8,900,000	7,972	1.74

## Portfolio Statement as at 30 September 2018 cont.

Stock description	Holding	Market value £'000	% of total net assets
Interxion 4.75% 2025	5,310,000	4,953	1.08
Paprec 4% 2025	6,330,000	5,673	1.24
Thomas Cook 3.875% 2023	6,390,000	5,379	1.17
<b>Technology &amp; Electronics - 2.59% (1.65%)</b>			
Match.com 5% 2027 144A	3,040,000	2,320	0.51
Verisign 4.75% 2027	2,834,000	2,103	0.46
Verisign Inc 4.625% 2023	4,067,000	3,158	0.69
Worldpay 3.75% 2022	4,435,000	4,270	0.93
<b>Telecommunications - 11.80% (11.82%)</b>			
Arqiva Group 6.75% 2023	7,029,000	7,196	1.57
Cellnex 2.875% 2025	4,300,000	3,918	0.85
Equinix 2.875% 2025	7,011,000	6,156	1.34
Frontier Communications 8.5% 2026	3,090,000	2,239	0.49
Inmarsat 4.875% 2022 (144A)	10,481,000	7,997	1.75
Matterhorn 3.625% 2022	4,304,000	3,421	0.75
Matterhorn 4% 2027	1,570,000	1,325	0.29
Millicom 6% 2025 144A	7,025,000	5,417	1.18
SES 4.625% Perp	6,298,000	5,816	1.27
Telecom Italia 1.125% 2022 Convertible	5,400,000	4,645	1.01
Telecom Italia 2.5% 2023	5,075,000	4,561	1.00
Telecom Italia 7.2% 2036	1,697,000	1,360	0.30
<b>Transportation - 0.00% (1.18%)</b>			
<b>Utilities - 1.79% (2.35%)</b>			
EDF 6% 2026 Perp	5,200,000	5,312	1.16
Origin Energy 4% 2019/74	3,152,000	2,883	0.63
<b>Derivatives - 0.72% (2.50%)</b>			
Forward currency contracts (see Table 1)		3,281	0.72
Futures contracts (see Table 2)		-	0.00
Portfolio of investments		440,984	96.25



## Portfolio Statement as at 30 September 2018 cont.

Stock description	Holding	Market value £'000	% of total net assets
<b>Net other assets - 3.75% (3.82%)</b>		<b>17,170</b>	<b>3.75</b>
<b>Net assets</b>		<b>458,154</b>	<b>100.00</b>

<sup>1</sup>The issuer of this bond has deferred making interest payments, therefore the bond has been valued at the Investment Adviser's valuation.

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

Unless otherwise stated the above holdings are in fixed interest securities.

Figures in brackets in the investment category headings refer to 30 September 2017.

**Table 1: Unrealised gains/(losses) on open forward currency contracts**

Counterparty	Settlement	Buy	Buy Amount	Sell	Sell Amount	Unrealised gains/(losses) £'000	% of total net assets
HSBC	18/10/18	GBP	269,214,085	EUR	299,000,000	2,716	0.59
JP Morgan Chase	18/10/18	GBP	3,537,974	CHF	4,410,000	73	0.02
National Australia Bank	18/10/18	GBP	5,169,781	USD	6,700,000	36	0.01
Royal Bank of Scotland	18/10/18	GBP	64,725,655	USD	83,884,000	456	0.10
Unrealised gains/(losses) on open forward currency contracts						3,281	0.72

**Table 2: Unrealised gains/(losses) on futures contracts**

Futures	Maturity	Notional	Unrealised gains/(losses) £'000	% of total net assets
Long Gilt Future 10 Year December 2018	31/12/18	(101)	-	0.00
US 5 Year Note December 2018	04/01/19	(80)	-	0.00
US Long Bond (CBT) December 2018	31/12/18	(31)	-	0.00
US Ultra 10 Year Note Future December 2018	31/12/18	(80)	-	0.00
Unrealised gains/(losses) on futures contracts			-	0.00

# Comparative Tables

## Comparative Table: A Income Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	130.01	123.87	118.20
Return before operating charges*	3.11	11.67	11.56
Operating charges	(1.33)	(1.32)	(1.24)
Return after operating charges*	1.78	10.35	10.32
Distributions on income shares	(4.26)	(4.21)	(4.65)
<b>Closing net asset value per share</b>	<b>127.53</b>	<b>130.01</b>	<b>123.87</b>
*After direct transaction costs of:	0.00	0.00	0.00
<b>Performance:</b>			
Return after charges	1.37%	8.20%	7.94%
<b>Other Information:</b>			
Closing net asset value (£'000)	14,700	16,224	38,747
Closing number of shares	11,526,980	12,478,949	31,280,997
Operating charges	1.02%	1.03%	1.03%
Direct transaction costs <sup>1</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	132.9	132.7	126.9
Lowest share price (pence)	127.9	124.1	112.4

## Comparative Tables cont.

### Comparative Table: B Accumulation Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	231.68	212.68	195.70
Return before operating charges*	5.61	20.22	19.43
Operating charges	(0.90)	(0.83)	(0.77)
Return after operating charges*	4.71	19.39	18.66
Distributions	(9.22)	(8.75)	(8.39)
Retained distributions on accumulation shares	9.22	8.36	6.71
<b>Closing net asset value per share</b>	<b>236.39</b>	<b>231.68</b>	<b>212.68</b>
*After direct transaction costs of:	0.00	0.00	0.00
<b>Performance:</b>			
Return after charges	2.03%	8.93%	8.68%
<b>Other Information:</b>			
Closing net asset value (£'000)	210,266	165,088	93,312
Closing number of shares	88,947,291	71,256,206	43,873,818
Operating charges	0.38%	0.37%	0.38%
Direct transaction costs <sup>1</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	238.6	233.3	216.1
Lowest share price (pence)	233.1	213.3	188.0

## Comparative Tables cont.

### Comparative Table: B Income Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	134.12	127.77	121.90
Return before operating charges*	3.22	12.07	11.95
Operating charges	(0.51)	(0.51)	(0.47)
Return after operating charges*	2.71	11.56	11.48
Distributions on income shares	(5.28)	(5.21)	(5.61)
<b>Closing net asset value per share</b>	<b>131.55</b>	<b>134.12</b>	<b>127.77</b>
 *After direct transaction costs of:	 0.00	 0.00	 0.00
<b>Performance:</b>			
Return after charges	2.02%	8.87%	8.50%
<b>Other Information:</b>			
Closing net asset value (£'000)	192,507	180,784	163,458
Closing number of shares	146,337,417	134,794,685	127,927,865
Operating charges	0.38%	0.38%	0.38%
Direct transaction costs <sup>1</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	137.2	137.3	131.0
Lowest share price (pence)	132.2	128.1	116.0

## Comparative Tables cont.

### Comparative Table: C Accumulation Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	349.29	318.97	289.90
Return before operating charges*	8.46	30.42	29.16
Operating charges	(0.11)	(0.10)	(0.09)
Return after operating charges*	8.35	30.32	29.07
Distributions	(15.16)	(14.33)	(14.65)
Retained distributions on accumulation shares	15.16	14.33	14.65
<b>Closing net asset value per share</b>	<b>357.64</b>	<b>349.29</b>	<b>318.97</b>
*After direct transaction costs of:	0.00	0.00	0.00
<b>Performance:</b>			
Return after charges	2.39%	9.51%	10.03%
<b>Other Information:</b>			
Closing net asset value (£'000)	40,680	76,682	255,742
Closing number of shares	11,374,500	21,953,600	80,178,000
Operating charges	0.03%	0.03%	0.03%
Direct transaction costs <sup>1</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	360.1	351.7	323.9
Lowest share price (pence)	351.4	320.4	279.9

## Comparative Tables cont.

### Comparative Table: C Income Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	140.15	133.51	127.40
Return before operating charges*	3.35	12.55	13.23
Operating charges	(0.04)	0.00	(0.04)
Return after operating charges*	3.31	12.55	13.19
Distributions on income shares	(6.00)	(5.91)	(7.08)
<b>Closing net asset value per share</b>	<b>137.46</b>	<b>140.15</b>	<b>133.51</b>
 *After direct transaction costs of:	 0.00	 0.00	 0.00
<b>Performance:</b>			
Return after charges	2.36%	9.21%	9.24%
<b>Other Information:</b>			
Closing net asset value (£'000)	1	1	1
Closing number of shares	500	500	500
Operating charges	0.03%	0.03%	0.03%
Direct transaction costs <sup>1</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	143.4	143.6	137.0
Lowest share price (pence)	138.2	133.9	121.3

<sup>1</sup>The Fund incurs broker commission and transfer taxes/stamp duty as a necessary part of buying and selling the Fund's underlying investments in order to achieve the investment objective. Commission is also payable to the counterparty on the trading of future contracts.

A dilution adjustment is made whenever dealings in the shares of the Fund result in shares being issued or cancelled by the Company. The adjustment will take account of any spread between the buying and selling prices of the Fund's investments and the costs (which may include dealing charges and taxes) of acquiring or disposing of such investments. Please note that the direct transaction cost disclosures above do not include the dilution adjustment charges. For further details on dilution adjustment charges please see the General Information section.

# Financial Statements

## Statement of Total Return for the year ended 30 September 2018

		2018		2017	
	Notes	£'000	£'000	£'000	£'000
Income					
Net capital gains/(losses)	1		(8,530)		24,025
Revenue	3	18,992		21,607	
Expenses	4	(1,562)		(1,367)	
Net revenue before taxation		17,430		20,240	
Taxation	5	-		-	
Net revenue after taxation			17,430		20,240
Total return before distributions			8,900		44,265
Distributions	6		(17,430)		(20,240)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>(8,530)</b>		<b>24,025</b>

## Statement of Change in Net Assets Attributable to Shareholders for the year ended 30 September 2018

	2018		2017	
	£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>		<b>438,779</b>		<b>551,260</b>
Amounts receivable on issue of shares	93,685		107,866	
Amounts payable on cancellation of shares	(75,872)		(256,947)	
		17,813		(149,081)
Dilution adjustment		358		1,355
Change in net assets attributable to shareholders from investment activities		(8,530)		24,025
Retained distributions on accumulation shares		9,734		11,220
<b>Closing net assets attributable to shareholders</b>		<b>458,154</b>		<b>438,779</b>

## Financial Statements cont.

### Balance Sheet as at 30 September 2018

	Notes	2018 £'000	2017 £'000
<b>Assets:</b>			
Fixed assets:			
Investments	13	440,984	422,004
Current assets:			
Debtors	8	11,226	10,684
Cash and bank balances	9	24,107	23,774
<b>Total assets</b>		<b>476,317</b>	<b>456,462</b>
<b>Liabilities:</b>			
Creditors:			
Distributions payable		(3,770)	(3,294)
Other creditors	10	(14,393)	(14,389)
<b>Total liabilities</b>		<b>(18,163)</b>	<b>(17,683)</b>
<b>Net assets attributable to shareholders</b>		<b>458,154</b>	<b>438,779</b>



# Notes to the Financial Statements

## 1 Net capital gains/(losses)

	2018	2017
	£'000	£'000
Non-derivative securities	(5,929)	27,499
Derivative contracts	326	(122)
Forward currency contracts	(2,759)	(3,452)
Currency gains/(losses)	(165)	103
Transaction costs	(3)	(3)
<b>Net capital gains/(losses)</b>	<b>(8,530)</b>	<b>24,025</b>

## 2 Purchases, sales and transaction costs

	2018	2017
	£'000	£'000
<b>Purchases and transaction costs</b>		
Gross purchases of bonds excluding transaction costs <sup>1</sup>	191,146	338,276
<b>Purchases including transaction costs</b>	<b>191,146</b>	<b>338,276</b>

<sup>1</sup>There were no transaction costs on the purchase of bonds.

	2018	2017
	£'000	£'000
<b>Sales and transaction costs</b>		
Gross sales of bonds excluding transaction costs <sup>1</sup>	157,238	492,512
<b>Sales net of transaction costs</b>	<b>157,238</b>	<b>492,512</b>

<sup>1</sup>There were no transaction costs on the sale of bonds.

	2018	2017
	£'000	£'000
<b>Transaction cost on derivative contracts</b>		
Commission on trading futures contracts	4	4

## Notes to the Financial Statements cont.

### 2 Purchases, sales and transaction costs (continued)

	2018		2017	
	£'000	% of average NAV	£'000	% of average NAV
<b>Portfolio transaction costs</b>				
Commissions	4	0.00	4	0.00
Taxes	-	0.00	-	0.00
<b>Total direct transaction costs</b>	<b>4</b>	<b>0.00</b>	<b>4</b>	<b>0.00</b>
			2018	2017
			%	%
Average portfolio dealing spread			0.66	0.72

The Fund incurs broker commission and transfer taxes/stamp duty as a necessary part of buying and selling the Fund's underlying investments in order to achieve the investment objective. Commission is also payable to the counterparty on the trading of futures contracts.

Dilution adjustment charges, which do not form part of the direct transaction costs disclosures above, may be incurred as a result of trading in underlying funds. For further details on dilution adjustment charges please see the General Information section.

Dealing spread is the difference in the buying and selling prices of the underlying investments. Dealing spreads vary considerably depending on the transaction value and market sentiment. The Fund may have holdings in single priced funds. The notional spread on these holdings is not included in the average dealing spread calculated for this Fund.

### 3 Revenue

	2018	2017
	£'000	£'000
Interest on debt securities	18,958	21,230
Bank interest	34	16
Other income	-	361
<b>Total revenue</b>	<b>18,992</b>	<b>21,607</b>

## Notes to the Financial Statements cont.

### 4 Expenses

	2018	2017
	£'000	£'000
<b>Payable to the ACD, associates of the ACD and agents of either of them:</b>		
ACD's periodic charge	1,462	1,252
<b>Payable to the Depositary, associates of the Depositary and agents of either of them:</b>		
Depositary's fee	51	57
Bank charges	42	50
	93	107
<b>Other expenses:</b>		
Audit fee	7	8
<b>Total expenses</b>	<b>1,562</b>	<b>1,367</b>

### 5 Taxation

	2018	2017
	£'000	£'000
<b>Analysis of charge in the year</b>		
Corporation tax	-	-
<b>Total taxation</b>	<b>-</b>	<b>-</b>

The Fund is subject to corporation tax at 20% (2017: 20%), however, the Fund is a bond fund making interest distributions and the interest distributions made by the Fund are allowable in arriving at the amount of revenue liable to tax. As a result, this has reduced the corporation tax liability of the Fund to nil.

The deduction of the interest distribution has been restricted to reflect the priority utilisation of the management expenses incurred by the Fund in the year, as per regulation 13(1A) of SI 2006/964. This results in no excess management expenses or interest distribution being carried forward.

The tax charge is explained as follows:

	2018	2017
	£'000	£'000
Net revenue/(expense) before taxation	17,430	20,240
Net revenue before taxation multiplied by the standard rate of corporation tax of 20% (2017: 20%)	3,486	4,048
Effects of:		
Interest distributions	(3,486)	(4,048)
<b>Total taxation</b>	<b>-</b>	<b>-</b>

## Notes to the Financial Statements cont.

### 6 Distributions

	2018	2017
	£'000	£'000
Interim to 31 December	3,350	5,175
Interim to 31 March	2,983	3,779
Interim to 30 June	3,143	2,958
Final to 30 September	8,351	7,009
	<b>17,827</b>	<b>18,921</b>
Amounts deducted on cancellation of shares	512	2,162
Amounts added on issue of shares	(909)	(843)
<b>Total distributions</b>	<b>17,430</b>	<b>20,240</b>

The distributions take account of revenue transactions on the issue and cancellation of shares. Details of the distributions per share are set out in the Distribution Tables.

### 7 Reconciliation of net revenue to net distributions for the year

	2018	2017
	£'000	£'000
Net revenue after taxation for the year	17,430	20,240
<b>Net distributions for the year</b>	<b>17,430</b>	<b>20,240</b>

### 8 Debtors

	2018	2017
	£'000	£'000
Receivable for issue of shares	1,592	2,260
Sales awaiting settlement	2,513	1,531
Accrued income	7,114	6,892
Other debtors	7	1
<b>Total debtors</b>	<b>11,226</b>	<b>10,684</b>

### 9 Cash and bank balances

	2018	2017
	£'000	£'000
Sterling amounts held at clearing houses and brokers	204	227
Foreign amounts held at clearing houses and brokers	192	200
Sterling bank accounts	23,711	23,347
<b>Total cash and bank balances</b>	<b>24,107</b>	<b>23,774</b>

## Notes to the Financial Statements cont.

### 10 Other creditors

	2018	2017
	£'000	£'000
Payable for cancellation of shares	512	147
Purchases awaiting settlement	10,236	1,638
Due to the ACD or associates	119	109
Due to the Depositary or associates	14	16
Collateral held on behalf of counterparty	3,505	12,470
Other accrued expenses	7	9
<b>Total other creditors</b>	<b>14,393</b>	<b>14,389</b>

### 11 Related party transactions

Baillie Gifford & Co Limited, as ACD, is regarded as a related party by virtue of the services provided to the Company. Baillie Gifford & Co Limited acts as principal in respect of all transactions of shares in the Company, except where stocks are transferred on the issue or cancellation of shares. The aggregate monies received through issue and paid on cancellation are disclosed in the Statement of Change in Net Assets Attributable to Shareholders. Amounts receivable and payable on the issue and cancellation of shares have been disclosed in notes 8 and 10 respectively.

Amounts paid to Baillie Gifford & Co Limited in respect of ACD fees are disclosed in note 4 with amounts due at the year end given in note 10.

#### Shares held by the ACD and associates of the ACD

The shares held by the ACD and associates of the ACD as a percentage of the Fund's NAV were:

	2018	2017
	%	%
ACD and associates of the ACD	8.88	17.48

### 12 Reconciliation of shares in issue

	2018				
	A Income Shares	B Accumulation Shares	B Income Shares	C Accumulation Shares	C Income Shares
Opening shares in issue	12,478,949	71,256,206	134,794,685	21,953,600	500
Shares issued	1,698,083	25,250,625	17,193,568	2,729,525	500
Shares cancelled	(1,490,428)	(7,466,195)	(6,935,716)	(13,308,625)	(500)
Shares converted	(1,159,624)	(93,344)	1,284,879	-	-
<b>Closing shares in issue</b>	<b>11,526,980</b>	<b>88,947,292</b>	<b>146,337,416</b>	<b>11,374,500</b>	<b>500</b>

## Notes to the Financial Statements cont.

### 13 Basis of valuation

	2018		2017	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Level 1: Quoted prices	-	-	-	-
Level 2: Observable market data	440,984	-	422,004	-
Level 3: Unobservable data <sup>1</sup>	-	-	-	-
<b>Total</b>	<b>440,984</b>	<b>-</b>	<b>422,004</b>	<b>-</b>

<sup>1</sup>For further information on the assets included in Level 3, as at 30 September 2018, please refer to the Portfolio Statement.

### 14 Credit ratings

Rating Block	2018		2017	
	Market value £'000	Percentage of total Fund	Market value £'000	Percentage of total Fund
Investment Grade	48,391	10.56	16,110	3.67
High Yield	389,311	84.97	390,577	89.01
Unrated	-	-	4,343	0.99
<b>Total Bonds - Direct</b>	<b>437,702</b>	<b>95.53</b>	<b>411,030</b>	<b>93.67</b>
Other	20,452	4.47	27,749	6.33
<b>Net Assets</b>	<b>458,154</b>	<b>100.00</b>	<b>438,779</b>	<b>100.00</b>

### 15 Derivatives and other financial instruments

#### Currency exposures

A substantial proportion of the net assets of the Fund are denominated in currencies other than sterling, with the effect that the balance sheet and total return can be significantly affected by currency movements.

Currency	Net foreign currency assets/(liabilities)			Net foreign currency assets/(liabilities)		
	2018			2017		
	Monetary exposures £'000	Non-monetary exposures £'000	Total £'000	Monetary exposures £'000	Non-monetary exposures £'000	Total £'000
Euro	-	(1,365)	(1,365)	68	(4,343)	(4,275)
Swiss franc	-	(44)	(44)	-	175	175
UK sterling	20,410	442,998	463,408	11,140	426,265	437,405
US dollar	192	(605)	(413)	132	(92)	40

Short term debtors and creditors have not been disclosed.

## Notes to the Financial Statements cont.

### 15 Derivatives and other financial instruments (continued)

#### Interest rate risk profile of financial assets and financial liabilities

The interest rate risk profile of the Fund was:

Currency	2018				2017			
	Floating Rate financial assets £'000	Fixed Rate financial assets £'000	Financial assets not carrying interest £'000	Total £'000	Floating Rate financial assets £'000	Fixed Rate financial assets £'000	Financial assets not carrying interest £'000	Total £'000
Euro	-	265,134	-	265,134	68	229,380	-	229,448
Swiss franc	-	3,421	-	3,421	-	3,573	-	3,573
UK sterling	25,538	98,728	342,647	466,913	24,758	112,850	312,231	449,839
US dollar	192	68,797	-	68,989	132	64,043	-	64,175

Currency	2018				2017			
	Floating Rate financial liabilities £'000	Fixed Rate financial liabilities £'000	Financial liabilities not carrying interest £'000	Total £'000	Floating Rate financial liabilities £'000	Fixed Rate financial liabilities £'000	Financial liabilities not carrying interest £'000	Total £'000
Euro	-	-	266,498	266,498	-	-	233,723	233,723
Swiss franc	-	-	3,465	3,465	-	-	3,399	3,399
UK sterling	3,505	-	-	3,505	12,470	-	-	12,470
US dollar	-	-	69,402	69,402	-	-	64,135	64,135

#### Fixed rate financial assets

	2018	2017
The weighted average interest rate of the fixed rate financial assets is:		
Euro denominated	3.07%	2.33%
Swiss franc denominated	3.15%	1.57%
UK sterling denominated	5.17%	4.69%
US dollar denominated	6.53%	5.71%

The weighted average maturity of the fixed rate financial assets is:

Euro denominated	6.11 years	6.92 years
Swiss franc denominated	3.59 years	4.59 years
UK sterling denominated	6.79 years	8.73 years
US dollar denominated	7.59 years	7.72 years

In addition the Fund may hold floating rate financial assets that comprise floating rate notes, index-linked government bonds, bank balances, collateral balances, the receive legs of interest rate swaps and the receive legs of inflation rate swaps, the returns on which are uncertain. The return on floating rate notes is dependent on certain factors which may include future interest rates, specific bond terms and

## Notes to the Financial Statements cont.

### 15 Derivatives and other financial instruments (continued)

price indices over the remaining life of the bonds. The return on index-linked bonds is dependent on changes in respective national price indices over the remaining life of the bonds. Bank balances bear interest at rates based on LIBOR or the foreign currency equivalent. Collateral held on the Fund's behalf by counterparties bears interest based on LIBOR or the foreign currency equivalent. The return on floating rate legs of interest rate swaps is dependent on the specific base rate against which the swap has been taken. The return on floating rate legs of inflation rate swaps is dependent on future inflation rates over the remaining life of the swaps.

#### Financial liabilities

The Fund may hold floating rate financial liabilities that comprise overdrawn bank balances, collateral balances, the pay legs of interest rate swaps and the pay legs of inflation rate swaps, the payments on which are uncertain. Overdrawn bank balances pay interest at rates based on LIBOR or the foreign currency equivalent. Collateral held on behalf of counterparties pay interest based on LIBOR or the foreign currency equivalent. The payment on floating rate legs of interest rate swaps is dependent on the specific base rate against which the swap has been taken. The payment on floating rate legs of inflation rate swaps is dependent on future inflation rates over the remaining life of the swap.

### 16 Derivative Exposure

The exposure to derivative counterparties was:

Counterparty	2018			2017		
	Forward	Cash	Total	Forward	Cash	Total
	currency contracts £'000	collateral held £'000	exposure £'000	currency contracts £'000	collateral held £'000	exposure £'000
HSBC	2,716	(2,400)	316	9,604	(11,040)	(1,436)
JP Morgan Chase	73	-	73	145	(125)	20
National Australia Bank	36	-	36	-	-	-
Royal Bank of Canada	-	-	-	29	-	29
Royal Bank of Scotland	456	(1,105)	(649)	1,196	(1,305)	(109)

Collateral pledged on derivatives was zero.

In addition the Fund trades futures contracts through UBS. Fair value movements are offset by movements in the variation margin account which reduces the derivative counterparty exposure to nil.



## Notes to the Financial Statements cont.

### 17 Value at risk (VaR)

The market risk of the Fund's financial asset and liability positions is monitored by the Investment Adviser using VaR analysis. VaR analysis attempts to reflect the interdependencies between risk variables, unlike a traditional sensitivity analysis. VaR represents the potential losses from adverse changes in market factors for a specified time period and confidence level.

Model assumptions:

System	FIS Advanced Portfolio Technologies (APT)
VaR methodology:	variance covariance approach (with delta-adjustment)
Confidence level:	99%
Holding period:	1 month
Decay factor for exponential smoothing of historical market data:	nil
Historical observation period:	180 weeks

	2018	2017
	%	%
Fund VaR:	2.48	4.84
Index VaR:	2.36	2.89

The VaR noted above indicates the VaR of the Fund's financial instruments, measured as the potential 1 month loss in value from adverse changes in equity prices, interest rates, inflation and foreign currency exchange rates, with a 99% confidence level.

In combination with a snapshot of the portfolio and benchmark constituents at a given point in time, the APT risk model uses 180 weeks of historic data to formulate a prediction of risk over a desired time period. In the case of VaR numbers, the risk model produces a 1-month prediction of 99% VaR. The decay factor for exponential smoothing of the historic market data refers to how the risk model uses more recent data in its historic data window compared to older data. Using a positive decay factor would mean that the risk model is placing more importance on more recent data than on older data in formulating its prediction of risk – this would result in the risk model being more short-term in nature, and increasingly geared to short-term recent events. The decay factor used in the APT risk model for calculating VaR numbers is nil. This means that each of the 180 weeks of historic data used by the risk model are treated with equal importance in the model's calculation of predicted risk. This means that the risk model's prediction of risk will be influenced by the average variances and covariances of portfolio and benchmark constituents over the past 3½ years.

#### Objectives and limitations of the VaR methodology

The APT model uses statistical factor techniques to measure the effects of these risk variables on the value of the Fund. The VaR model is designed to measure market risk in a normal market environment.

The use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies significantly on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the given distribution assumption. VaR may also be under- or over-estimated due to the assumption placed on risk factors and the relationship between such factors for specific instruments.

Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level. In practice, the actual trading results will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation. Market risk positions are also subject to regular stress tests to ensure that the Fund would withstand an extreme market event.

# Distribution Table

Interim distribution for the period ended 31 December 2017

Group 1 : shares purchased prior to 1 October 2017

Group 2 : shares purchased 1 October 2017 to 31 December 2017

	Net Revenue	Equalisation	Distribution (paid/accumulated 28.02.18)	Distribution (paid/accumulated 28.02.17)
	31.12.17 pence per share	31.12.17 pence per share	31.12.17 pence per share	31.12.16 pence per share
A Income				
Group 1	0.80000	-	0.80000	0.75000
Group 2	0.31033	0.48967	0.80000	0.75000
B Accumulation				
Group 1	1.60000	-	1.60000	1.55000
Group 2	0.48252	1.11748	1.60000	1.55000
B Income				
Group 1	0.95000	-	0.95000	0.90000
Group 2	0.24045	0.70955	0.95000	0.90000
C Accumulation				
Group 1	3.15000	-	3.15000	3.15000
Group 2	3.15000	-	3.15000	3.15000
C Income				
Group 1	1.10000	-	1.10000	1.05000
Group 2	1.10000	-	1.10000	1.05000

## Distribution Table cont.

Interim distributions for the period ended 31 March 2018

Group 1 : shares purchased prior to 1 January 2018

Group 2 : shares purchased 1 January 2018 to 31 March 2018

	Net Revenue	Equalisation	Distribution (paid/accumulated 31.05.18)	Distribution (paid/accumulated 31.05.17)
	31.03.18 pence per share	31.03.18 pence per share	31.03.18 pence per share	31.03.17 pence per share
<b>A Income</b>				
Group 1	0.80000	-	0.80000	0.75000
Group 2	0.01072	0.78928	0.80000	0.75000
<b>B Accumulation</b>				
Group 1	1.60000	-	1.60000	1.55000
Group 2	-	1.60000	1.60000	1.55000
<b>B Income</b>				
Group 1	0.95000	-	0.95000	0.90000
Group 2	-	0.95000	0.95000	0.90000
<b>C Accumulation</b>				
Group 1	3.15000	-	3.15000	3.15000
Group 2	1.55430	1.59570	3.15000	3.15000
<b>C Income</b>				
Group 1	1.10000	-	1.10000	1.05000
Group 2	1.10000	-	1.10000	1.05000

## Distribution Table cont.

Interim distribution for the period ended 30 June 2018

Group 1 : share purchased prior to 1 April 2018

Group 2 : share purchased 1 April 2018 to 30 June 2018

	Net Revenue	Equalisation	Distribution (paid/accumulated 31.08.18)	Distribution (paid/accumulated 31.08.17)
	30.06.18 pence per share	30.06.18 pence per share	30.06.18 pence per share	30.06.17 pence per share
<b>A Income</b>				
Group 1	0.80000	-	0.80000	0.75000
Group 2	-	0.80000	0.80000	0.75000
<b>B Accumulation</b>				
Group 1	1.60000	-	1.60000	1.55000
Group 2	-	1.60000	1.60000	1.55000
<b>B Income</b>				
Group 1	0.95000	-	0.95000	0.90000
Group 2	-	0.95000	0.95000	0.90000
<b>C Accumulation</b>				
Group 1	3.15000	-	3.15000	3.15000
Group 2	1.79190	1.35810	3.15000	3.15000
<b>C Income</b>				
Group 1	1.10000	-	1.10000	1.05000
Group 2	1.10000	-	1.10000	1.05000

## Distribution Table cont.

Final distribution for the period ended 30 September 2018

Group 1 : shares purchased prior to 1 July 2018

Group 2 : shares purchased 1 July 2018 to 30 September 2018

	Net Revenue	Equalisation	Distribution (paid/accumulated 30.11.18)	Distribution (paid/accumulated 30.11.17)
	30.09.18 pence per share	30.09.18 pence per share	30.09.18 pence per share	30.09.17 pence per share
<b>A Income</b>				
Group 1	1.86000	-	1.86000	1.77000
Group 2	0.47824	1.38176	1.86000	1.77000
<b>B Accumulation</b>				
Group 1	4.42000	-	4.42000	3.71000
Group 2	1.06054	3.35946	4.42000	3.71000
<b>B Income</b>				
Group 1	2.43000	-	2.43000	2.28000
Group 2	0.56260	1.86740	2.43000	2.28000
<b>C Accumulation</b>				
Group 1	5.71000	-	5.71000	4.88000
Group 2	0.81630	4.89370	5.71000	4.88000
<b>C Income</b>				
Group 1	2.70000	-	2.70000	2.50000
Group 2	2.70000	-	2.70000	2.50000

# BAILLIE GIFFORD

## Baillie Gifford Investment Grade Bond Fund

a sub-fund of Baillie Gifford Bond Funds ICVC

*Annual Report and Financial Statements  
for the year ended 30 September 2018*



# Baillie Gifford Investment Grade Bond Fund

## Investment Objective

The Fund aims to produce attractive returns, 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, are used to protect or enhance the return of the Fund, including for investment purposes.

## 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 relevant material risks:

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 involves a risk of loss if the custodian becomes insolvent or breaches duties of care.

Bonds issued by companies and governments may be adversely affected by changes in interest rates, expectations of inflation and a decline in the creditworthiness of the bond issuer. The issuers of bonds in which the Fund invests may not be able to pay the bond income as promised or could fail to repay the capital amount.

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 result in the Fund being leveraged. This 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.

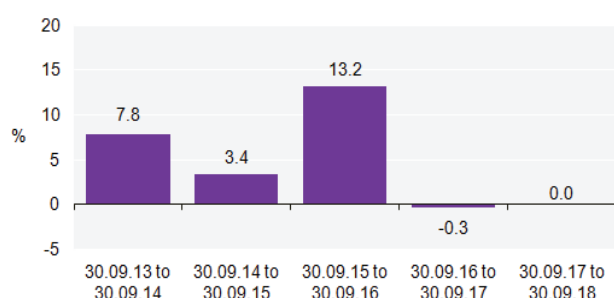
The result of the UK Referendum on membership of the European Union introduces elements of political uncertainty and may have practical consequences for the Fund. Developments will be closely monitored.

Further details of the risks associated with investing in the Fund can be found in the Prospectus which is available by contacting Client Relations or visiting our website.



# Investment Report

## Past Performance<sup>1</sup>



The performance figures shown in this graph are for Class B Income Shares. Performance figures reflect the ACD's annual fee of 0.25%, but exclude any initial charge paid. Please note these returns differ from the returns 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 contacting Client Relations. You should be aware that past performance is not a guide to future performance.

For the year to 30 September 2018 the return on B Income Shares was 0.5%<sup>2</sup>, compared to the return on the Bank of America Merrill Lynch Sterling Non-Gilts Index of 0.2%<sup>3</sup>.

This was a solid result for a credit fund that was running with a higher credit spread than its comparative index at the start of the period.

The Fund earned about half of that return from stock selection. Material contributions came from a number of holdings. Tesco Property was one such bond. This was a bond that had become quite out-of-fashion as Tesco was producing relatively weak results, but turned into a strong performer during the last twelve months. We also benefited materially from another supermarket-related holding, a subordinated position in Sainsbury's Bank. This was a new issuer to the bond market in late 2017 and we liked the fundamentals. British Land and AT&T also contributed positively to the Fund's performance. General Electric had a poor year, as a company, and the Fund has an overweight position in their bond which fared poorly too. The Fund lost additional performance due to an overweight position in Dignity Finance as the company went through its weakest results.

Asset allocation was positive as we were overweight in relation to the Index in relatively defensive instruments and underweight the higher beta parts of the

credit market. That positioning proved to be sensible in the time period as credit spreads generally drifted wider and the higher beta parts of the market performed quite poorly.

During the course of the year, the Fund's exposure to highly rated AA credit risk increased and our exposure to less well-rated BBB credit decreased. We reduced holdings in telecommunications companies and increased our holdings in utility companies. These changes came about due to stock specific investments and divestments, but the result was a transition toward a fund that ought to demonstrate better performance if credit spreads widen.

The portfolio is currently positioned defensively. Outperformance in the coming year will likely come as a result of a handful of specific situations evolving in the way we expect, and ownership of assets that become more attractive (and valuable) when markets do not perform very well. The rationale for this positioning is quite similar to our view a year ago. Although markets have begun to shift and valuations are more attractive than they were, we think the overall levels of debt within the corporate world, combined with central bank actions, make generic credit appear poor value. Debt levels are high, valuations remain quite expensive and very large buyers of bonds, central banks, are buying less than they have been buying and plan to reduce that purchasing

<sup>1</sup>Source: FE, 10am dealing prices, income reinvested, after charges. <sup>2</sup>Source: Baillie Gifford & Co Limited, closing mid prices, income reinvested, after charges. <sup>3</sup>Source: FE and relevant underlying index provider, total return. Please see Disclaimer on page 296. You should be aware that past performance is not a guide to future performance.



## Investment Report cont.

level even further. We are however, still finding pockets of opportunity within individual bonds and continue to expect bond selection to be the key source of added value.

*Gregory Turnbull Schwartz, 2 November 2018*

## Principal Bond Holdings as at 30 September 2018

Investment	Percentage of total Fund
Network Rail 4.75% 2024	2.51
BBC 5.0636% 2033	2.49
GE Capital 8% 2039	2.26
Northern Powergrid 2.5% 2025	2.16
KFW 6% 2028	2.11
Orange SA 8.5% 2031	2.06
EIB 4.5% 2044	1.92
EDF 6% 2114	1.83
AT&T 5.3% 2058 144A	1.82
LCR Finance 4.5% 2028	1.72

## Material Portfolio Changes for the year ended 30 September 2018

Largest Purchases	Cost £'000	Largest Sales	Proceeds £'000
UK Treasury 2.75% 07/09/2024	3,042	RSA 5.125% 2025/45	3,978
Manchester Airport 2.875% 2039	2,972	UK Treasury 2.75% 07/09/2024	3,018
Newell Brands 4.2% 2026	2,755	Close Brothers Finance plc 3.875% 2021	2,612
AT&T 3.55% 2037	2,407	EIB 1.375% 2018	2,586
Citigroup 8.125% 2039	2,364	Tesco Property Finance 6 5.4111% 2044	2,504
DONG Energy 4.875% 2032	2,244	Rolls-Royce Plc 6.75% 2019	2,468
ING Group 3.15% 2022	2,189	AT&T 3.55% 2037	2,444
UK Treasury 2.25% 07/09/2023	2,181	Digital Realty Trust 4.25% 2025	2,413
Vodafone 4.625% 2078	2,100	Citigroup 7.375% 2039	2,316
Housing & Care 3.288% 2049	2,045	Walt Disney 4.375% 2041	2,218

The largest purchases and sales of bonds have been shown.

# Portfolio Statement as at 30 September 2018

Stock description	Holding	Market value £'000	% of total net assets
<b>Agency - 0.56% (0.47%)</b>			
SNCF Reseau 5.25% 2035	680,000	936	0.56
<b>Asset Backed - 5.57% (5.40%)</b>			
Channel Link 3.043% 2029 (A5)	990,000	967	0.57
Dignity Finance 4.6956% 2049	2,064,000	1,932	1.15
Lunar Funding 1 5.75% 2033	1,964,000	2,639	1.57
Mitchells & Butlers 5.965% 15/12/2023	1,882,000	593	0.35
Mitchells & Butlers 6.013% 15/12/2028	1,493,000	1,515	0.90
Mitchells & Butlers 6.469% 15/09/2030	851,000	964	0.57
Virgin Australia 2013-1 A (144A)	2,844,000	777	0.46
<b>Banking - 10.05% (8.31%)</b>			
Citigroup 8.125% 2039	2,160,000	2,401	1.42
HSBC 6.25% 2041	655,000	890	0.53
HSBC Holdings 5.75% 2027	2,010,000	2,360	1.40
ING Group 4.7% 2028	2,200,000	1,668	0.99
Rabobank Groep 5.375% 2060	400,000	588	0.35
Rabobank Group 4% 2029	2,600,000	1,919	1.14
Sainsbury Bank 6% 2022/27	1,560,000	1,598	0.95
Santander Holdings USA 4.4% 2027	1,170,000	861	0.51
Standard Chartered Bank 5.125% 2034	900,000	950	0.56
UBI 4.25% 2021/26	1,700,000	1,497	0.89
Yorkshire Building Society 3.375% 2027/28	2,370,000	2,208	1.31
<b>Basic Industry - 1.08% (0.00%)</b>			
Praxair 3.2% 2026	2,450,000	1,822	1.08
<b>Capital Goods - 3.85% (5.37%)</b>			
Fortive Corporation 3.15% 2026	1,320,000	942	0.56
GE Capital 8% 2039	2,304,000	3,802	2.26
Rolls-Royce Plc 6.75% 2019	1,692,000	1,744	1.03
<b>Commercial Mortgage Backed - 5.56% (6.12%)</b>			
BBC 5.0636% 2033	4,113,000	4,196	2.49

## Portfolio Statement as at 30 September 2018 cont.

Stock description	Holding	Market value £'000	% of total net assets
BBC White City Property 5.1202% 2035	1,670,000	1,835	1.09
Telereal 5.3887% 2031/33 (A5)	2,407,000	1,723	1.02
Telereal 5.5534% 2031/33 (A3)	1,715,000	1,607	0.96
<b>Consumer Goods - 2.76% (0.00%)</b>			
Anheuser-Busch 9.75% 2024	980,000	1,373	0.82
Newell Brands 4.2% 2026	3,175,000	2,313	1.37
Want Want China Finance 2.875% 2022	1,300,000	959	0.57
<b>Energy - 2.23% (2.55%)</b>			
Statoil 6.125% 2028	1,390,000	1,843	1.09
Statoil 6.875% 2031	1,315,000	1,912	1.14
<b>Financial Services - 2.53% (3.67%)</b>			
Close Brothers 2.75% 2023	1,201,000	1,195	0.71
Fidelity 7.125% 2024	900,000	1,083	0.64
Motability 3.625% 2036	1,789,000	1,985	1.18
<b>Government Guaranteed - 12.37% (12.00%)</b>			
KFW 5% 2036	1,570,000	2,279	1.35
KFW 5.55% 2021	2,200,000	2,454	1.46
KFW 5.75% 2032	1,817,000	2,650	1.57
KFW 6% 2028	2,556,000	3,550	2.11
LCR Finance 4.5% 2028	2,329,000	2,898	1.72
Network Rail 4.75% 2024	3,619,000	4,222	2.51
Network Rail 4.75% 2035	2,010,000	2,785	1.65
<b>Insurance - 6.13% (9.35%)</b>			
Admiral Group 5.5% 2024	1,710,000	1,853	1.10
Fairfax Financial Holdings 5.84% 2022	3,812,000	2,454	1.45
Legal & General 5.375% 2025/45	2,530,000	2,678	1.59
MetLife 3.5% 2026	1,743,000	1,901	1.13
Phoenix Life 7.25% 2021 Perp	1,363,000	1,445	0.86
<b>Leisure - 1.44% (1.25%)</b>			

## Portfolio Statement as at 30 September 2018 cont.

Stock description	Holding	Market value £'000	% of total net assets
Whitbread 3.375% 2025	2,400,000	2,435	1.44
<b>Media - 1.76% (2.86%)</b>			
Bertelsmann SE & Co 3.5% 2027/75	1,900,000	1,656	0.98
Daily Mail & General Trust 6.375% 2027	1,150,000	1,306	0.78
<b>Real Estate - 8.19% (8.86%)</b>			
Annington Funding 3.184% 2029	2,390,000	2,359	1.40
British Land 5.264% 2035 (Bearer)	1,980,000	2,459	1.46
Housing & Care 3.288% 2049	2,020,000	1,991	1.18
Sovereign Housing Capital 4.768% 2043	740,000	935	0.56
Vonovia 5% 2023 (144a)	2,192,000	1,708	1.01
Welltower 4.5% 2034	740,000	810	0.48
Welltower 4.8% 2028	1,097,000	1,226	0.73
WP Carey 4.25% 2026	3,110,000	2,307	1.37
<b>Retail - 0.00% (0.78%)</b>			
<b>Services - 1.19% (1.06%)</b>			
University of Cambridge 3.75% 2052	850,000	1,087	0.64
University of Leeds 3.125% 2050	870,000	926	0.55
<b>Supranational - 9.37% (10.06%)</b>			
EIB 4.5% 2044	2,220,000	3,234	1.92
EIB 4.625% 2054	590,000	964	0.57
EIB 5% 2039	1,572,000	2,326	1.38
EIB 5.375% 2021	2,031,000	2,257	1.34
EIB 6% 2028	1,800,000	2,484	1.48
IBRD 5.4% 2021	2,289,000	2,546	1.51
IBRD 5.75% 2032	1,355,000	1,975	1.17
<b>Technology &amp; Electronics - 1.12% (0.00%)</b>			
Booking Holdings 3.6% 2026	2,525,000	1,882	1.12
<b>Telecommunications - 6.29% (5.58%)</b>			

## Portfolio Statement as at 30 September 2018 cont.

Stock description	Holding	Market value £'000	% of total net assets
AT&T 5.3% 2058 144A	4,195,000	3,070	1.82
Bell Canada 2.9% 2026	465,000	260	0.15
Bell Canada 4.75% 2044	2,794,000	1,710	1.02
Orange SA 8.5% 2031	3,195,000	3,477	2.06
Vodafone 4.625% 2078	2,350,000	2,087	1.24
<b>Transportation - 0.93% (0.00%)</b>			
Manchester Airport 2.875% 2039	1,668,000	1,576	0.93
<b>Utilities - 13.98% (13.10%)</b>			
Centrica 7% 2033	650,000	929	0.55
DONG Energy 4.875% 2032	1,840,000	2,207	1.31
E.ON 6.75% 2039	950,000	1,389	0.82
Eastern Power Networks 4.75% 2021	1,900,000	2,070	1.23
EDF 5.5% 2041	500,000	627	0.37
EDF 6% 2114	2,400,000	3,078	1.83
Enel 5.75% 2040	870,000	1,087	0.65
Engie 7% 2028	750,000	1,042	0.62
National Grid 2.125% 2028	2,100,000	1,954	1.16
Northern Powergrid 2.5% 2025	3,575,000	3,638	2.16
RWE 6.125% 2039	900,000	1,234	0.73
SSE 8.375% 2028	960,000	1,414	0.84
TXU Eastern Funding 7.25% 2030 <sup>1</sup>	2,343,000	-	0.00
Wales and West Utilities 6.75% 2018/36	937,000	946	0.56
Western Power Dist East 5.25% 2023	830,000	939	0.56
Western Power Dist West 5.75% 2032	780,000	1,000	0.59
<b>Derivatives - 0.39% (0.47%)</b>			
Forward currency contracts (see Table 1)		662	0.39
Futures contracts (see Table 2)		-	0.00
Portfolio of investments		164,035	97.35
<b>Net other assets - 2.65% (2.74%)</b>		<b>4,469</b>	<b>2.65</b>
<b>Net assets</b>		<b>168,504</b>	<b>100.00</b>

## Portfolio Statement as at 30 September 2018 cont.

<sup>1</sup>The issuer of this bond was in administration at the year end, therefore the bond has been valued at the Investment Adviser's valuation.

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

Unless otherwise stated the above holdings are in fixed interest securities.

Figures in brackets in the investment category headings refer to 30 September 2017.

**Table 1: Unrealised gains/(losses) on open forward currency contracts**

Counterparty	Settlement	Buy	Buy Amount	Sell	Sell Amount	Unrealised gains/(losses) £'000	% of total net assets
HSBC	15/11/18	GBP	5,385,857	EUR	6,000,000	33	0.02
National Australia Bank	15/11/18	GBP	27,347,507	USD	34,975,000	585	0.35
Royal Bank of Canada	15/11/18	GBP	4,636,906	CAD	7,750,000	44	0.02
Unrealised gains/(losses) on open forward currency contracts						662	0.39

**Table 2: Unrealised gains/(losses) on futures contracts**

Futures	Maturity	Notional	Unrealised gains/(losses) £'000	% of total net assets
Canada 10 Year Bond Future December 2018	31/12/18	(46)	-	0.00
Euro-Bobl Future December 2018	10/12/18	2	-	0.00
Euro-Bund Future December 2018	10/12/18	(15)	-	0.00
Italy 10 Year Bond Future December 2018	10/12/18	(8)	-	0.00
Long Gilt Future 10 Year December 2018	31/12/18	129	-	0.00
Short Euro BTP Future December 2018	10/12/18	(7)	-	0.00
US 10 Year Note Future December 2018	31/12/18	(86)	-	0.00
US 5 Year Note December 2018	04/01/19	(20)	-	0.00
US Long Bond (CBT) December 2018	31/12/18	(47)	-	0.00
US Ultra 10 Year Note Future December 2018	31/12/18	(22)	-	0.00
US Ultra Long (CBT) December 2018	31/12/18	(33)	-	0.00
Unrealised gains/(losses) on futures contracts			-	0.00



# Comparative Tables

## Comparative Table: A Income Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	98.48	100.95	92.51
Return before operating charges*	0.82	0.86	12.15
Operating charges	(1.01)	(1.02)	(0.98)
Return after operating charges*	(0.19)	(0.16)	11.17
Distributions on income shares	(2.18)	(2.31)	(2.73)
<b>Closing net asset value per share</b>	<b>96.11</b>	<b>98.48</b>	<b>100.95</b>
*After direct transaction costs of:	0.00	0.00	0.00
<b>Performance:</b>			
Return after charges	(0.19)%	(0.27)%	11.48%
<b>Other Information:</b>			
Closing net asset value (£'000)	1,563	2,589	3,028
Closing number of shares	1,625,865	2,629,259	2,999,543
Operating charges	1.03%	1.03%	1.04%
Direct transaction costs <sup>2</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	101.1	102.3	103.7
Lowest share price (pence)	96.56	96.10	91.52

## Comparative Tables cont.

### Comparative Table: B Accumulation Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Period Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	207.95	206.70	188.20 <sup>1</sup>
Return before operating charges*	1.71	1.83	18.79
Operating charges	(0.59)	(0.58)	(0.29)
Return after operating charges*	1.12	1.25	18.50
Distributions	(6.24)	(6.33)	(3.41)
Retained distributions on accumulation shares	6.24	6.33	3.41
<b>Closing net asset value per share</b>	<b>209.07</b>	<b>207.95</b>	<b>206.70</b>
*After direct transaction costs of:	0.00	0.00	0.00
<b>Performance:</b>			
Return after charges	0.54%	0.60%	9.83%
<b>Other Information:</b>			
Closing net asset value (£'000)	26,443	25,459	4,830
Closing number of shares	12,647,187	12,242,810	2,336,382
Operating charges	0.28%	0.28%	0.28%
Direct transaction costs <sup>2</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	213.9	214.1	210.7
Lowest share price (pence)	207.1	197.1	187.4

## Comparative Tables cont.

### Comparative Table: B Income Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	102.27	104.83	96.07
Return before operating charges*	0.86	0.91	12.62
Operating charges	(0.29)	(0.29)	(0.28)
Return after operating charges*	0.57	0.62	12.34
Distributions on income shares	(3.03)	(3.18)	(3.58)
<b>Closing net asset value per share</b>	<b>99.81</b>	<b>102.27</b>	<b>104.83</b>
 *After direct transaction costs of:	 0.00	 0.00	 0.00
<b>Performance:</b>			
Return after charges	0.56%	0.45%	12.10%
<b>Other Information:</b>			
Closing net asset value (£'000)	58,049	82,558	62,632
Closing number of shares	58,158,113	80,725,890	59,743,640
Operating charges	0.28%	0.28%	0.28%
Direct transaction costs <sup>2</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	105.2	106.5	107.9
Lowest share price (pence)	100.6	99.87	95.06

## Comparative Tables cont.

### Comparative Table: C Accumulation Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	208.72	206.96	182.60
Return before operating charges*	1.71	1.82	24.42
Operating charges	(0.06)	(0.06)	(0.06)
Return after operating charges*	1.65	1.76	24.36
Distributions	(6.79)	(6.86)	(7.35)
Retained distributions on accumulation shares	6.79	6.86	7.35
<b>Closing net asset value per share</b>	<b>210.37</b>	<b>208.72</b>	<b>206.96</b>
*After direct transaction costs of:	0.00	0.00	0.00
<b>Performance:</b>			
Return after charges	0.79%	0.85%	13.34%
<b>Other Information:</b>			
Closing net asset value (£'000)	79,740	88,725	153,783
Closing number of shares	37,904,456	42,508,644	74,305,301
Operating charges	0.03%	0.03%	0.03%
Direct transaction costs <sup>2</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	214.8	214.8	210.9
Lowest share price (pence)	208.1	197.4	181.3

## Comparative Tables cont.

### Comparative Table: C Income Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	105.39	108.03	99.01
Return before operating charges*	0.88	0.93	12.99
Operating charges	(0.03)	(0.03)	(0.03)
Return after operating charges*	0.85	0.90	12.96
Distributions on income shares	(3.39)	(3.54)	(3.94)
<b>Closing net asset value per share</b>	<b>102.85</b>	<b>105.39</b>	<b>108.03</b>
 *After direct transaction costs of:	 0.00	 0.00	 0.00
<b>Performance:</b>			
Return after charges	0.81%	0.68%	12.29%
<b>Other Information:</b>			
Closing net asset value (£'000)	2,709	1,917	1,965
Closing number of shares	2,633,775	1,818,775	1,818,775
Operating charges	0.03%	0.03%	0.03%
Direct transaction costs <sup>2</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	108.5	109.9	111.1
Lowest share price (pence)	103.9	102.9	97.94

<sup>1</sup>Class B Accumulation Shares were launched on 1 April 2016.

<sup>2</sup>The Fund incurs broker commission and transfer taxes/stamp duty as a necessary part of buying and selling the Fund's underlying investments in order to achieve the investment objective. Commission is also payable to the counterparty on the trading of future contracts.

A dilution adjustment is made whenever dealings in the shares of the Fund result in shares being issued or cancelled by the Company. The adjustment will take account of any spread between the buying and selling prices of the Fund's investments and the costs (which may include dealing charges and taxes) of acquiring or disposing of such investments. Please note that the direct transaction cost disclosures above do not include the dilution adjustment charges. For further details on dilution adjustment charges please see the General Information section.

# Financial Statements

## Statement of Total Return for the year ended 30 September 2018

		2018		2017	
	Notes	£'000	£'000	£'000	£'000
Income					
Net capital gains/(losses)	1		(4,416)		(5,497)
Revenue	3	6,135		7,582	
Expenses	4	(318)		(332)	
Net revenue before taxation		5,817		7,250	
Taxation	5	-		-	
Net revenue after taxation			5,817		7,250
Total return before distributions			1,401		1,753
Distributions	6		(5,818)		(7,251)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>(4,417)</b>		<b>(5,498)</b>

## Statement of Change in Net Assets Attributable to Shareholders for the year ended 30 September 2018

	2018		2017	
	£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>		<b>201,248</b>		<b>226,238</b>
Amounts receivable on issue of shares	8,096		33,161	
Amounts payable on cancellation of shares	(40,022)		(57,457)	
		(31,926)		(24,296)
Dilution adjustment		115		259
Change in net assets attributable to shareholders from investment activities		(4,417)		(5,498)
Retained distributions on accumulation shares		3,484		4,545
<b>Closing net assets attributable to shareholders</b>		<b>168,504</b>		<b>201,248</b>

## Financial Statements cont.

### Balance Sheet as at 30 September 2018

	Notes	2018 £'000	2017 £'000
<b>Assets:</b>			
Fixed assets:			
Investments	13	164,035	195,727
Current assets:			
Debtors	8	4,010	10,165
Cash and bank balances	9	5,477	4,156
<b>Total assets</b>		<b>173,522</b>	<b>210,048</b>
<b>Liabilities:</b>			
Creditors:			
Bank overdrafts	9	-	(66)
Distributions payable		(766)	(1,041)
Other creditors	10	(4,252)	(7,693)
<b>Total liabilities</b>		<b>(5,018)</b>	<b>(8,800)</b>
<b>Net assets attributable to shareholders</b>		<b>168,504</b>	<b>201,248</b>

# Notes to the Financial Statements

## 1 Net capital gains/(losses)

	2018	2017
	£'000	£'000
Non-derivative securities	(4,354)	(6,232)
Derivative contracts	691	425
Forward currency contracts	(765)	381
Currency gains/(losses)	13	(69)
Transaction costs	(1)	(2)
<b>Net capital gains/(losses)</b>	<b>(4,416)</b>	<b>(5,497)</b>

## 2 Purchases, sales and transaction costs

	2018	2017
	£'000	£'000
<b>Purchases and transaction costs</b>		
Gross purchases of bonds excluding transaction costs <sup>1</sup>	49,371	96,207
<b>Purchases including transaction costs</b>	<b>49,371</b>	<b>96,207</b>

<sup>1</sup>There were no transaction costs on the purchase of bonds.

	2018	2017
	£'000	£'000
<b>Sales and transaction costs</b>		
Gross sales of bonds excluding transaction costs <sup>1</sup>	74,738	108,835
<b>Sales net of transaction costs</b>	<b>74,738</b>	<b>108,835</b>

<sup>1</sup>There were no transaction costs on the sale of bonds.

	2018	2017
	£'000	£'000
<b>Transaction cost on derivative contracts</b>		
Commission on trading futures contracts	7	8



## Notes to the Financial Statements cont.

### 2 Purchases, sales and transaction costs (continued)

	2018		2017	
	£'000	% of average NAV	£'000	% of average NAV
<b>Portfolio transaction costs</b>				
Commissions	7	0.00	8	0.00
Taxes	-	0.00	-	0.00
<b>Total direct transaction costs</b>	<b>7</b>	<b>0.00</b>	<b>8</b>	<b>0.00</b>
			2018	2017
			%	%
Average portfolio dealing spread			0.58	0.63

The Fund incurs broker commission and transfer taxes/stamp duty as a necessary part of buying and selling the Fund's underlying investments in order to achieve the investment objective. Commission is also payable to the counterparty on the trading of futures contracts.

Dilution adjustment charges, which do not form part of the direct transaction costs disclosures above, may be incurred as a result of trading in underlying funds. For further details on dilution adjustment charges please see the General Information section.

Dealing spread is the difference in the buying and selling prices of the underlying investments. Dealing spreads vary considerably depending on the transaction value and market sentiment. The Fund may have holdings in single priced funds. The notional spread on these holdings is not included in the average dealing spread calculated for this Fund.

### 3 Revenue

	2018	2017
	£'000	£'000
Interest on debt securities	6,123	7,558
Bank interest	12	24
<b>Total revenue</b>	<b>6,135</b>	<b>7,582</b>

## Notes to the Financial Statements cont.

### 4 Expenses

	2018	2017
	£'000	£'000
<b>Payable to the ACD, associates of the ACD and agents of either of them:</b>		
ACD's periodic charge	270	274
<b>Payable to the Depositary, associates of the Depositary and agents of either of them:</b>		
Depositary's fee	22	26
Bank charges	19	24
	41	50
<b>Other expenses:</b>		
Audit fee	7	8
<b>Total expenses</b>	<b>318</b>	<b>332</b>

### 5 Taxation

	2018	2017
	£'000	£'000
<b>Analysis of charge in the year</b>		
Corporation tax	-	-
<b>Total taxation</b>	<b>-</b>	<b>-</b>

The Fund is subject to corporation tax at 20% (2017: 20%), however, the Fund is a bond fund making interest distributions and the interest distributions made by the Fund are allowable in arriving at the amount of revenue liable to tax. As a result, this has reduced the corporation tax liability of the Fund to nil.

The deduction of the interest distribution has been restricted to reflect the priority utilisation of the management expenses incurred by the Fund in the year, as per regulation 13(1A) of SI 2006/964. This results in no excess management expenses or interest distribution being carried forward.

The tax charge is explained as follows:

	2018	2017
	£'000	£'000
Net revenue/(expense) before taxation	5,817	7,250
Net revenue before taxation multiplied by the standard rate of corporation tax of 20% (2017: 20%)	1,163	1,450
Effects of:		
Interest distributions	(1,163)	(1,450)
<b>Total taxation</b>	<b>-</b>	<b>-</b>

## Notes to the Financial Statements cont.

### 6 Distributions

	2018	2017
	£'000	£'000
Interim to 31 December	1,183	1,732
Interim to 31 March	1,170	1,578
Interim to 30 June	1,096	1,640
Final to 30 September	2,177	2,141
	<b>5,626</b>	<b>7,091</b>
Amounts deducted on cancellation of shares	247	432
Amounts added on issue of shares	(55)	(272)
<b>Total distributions</b>	<b>5,818</b>	<b>7,251</b>

The distributions take account of revenue transactions on the issue and cancellation of shares. Details of the distributions per share are set out in the Distribution Tables.

### 7 Reconciliation of net revenue to net distributions for the year

	2018	2017
	£'000	£'000
Net revenue after taxation for the year	5,817	7,250
Add distributable revenue brought forward	1	2
Less distributable revenue carried forward	-	(1)
<b>Net distributions for the year</b>	<b>5,818</b>	<b>7,251</b>

### 8 Debtors

	2018	2017
	£'000	£'000
Receivable for issue of shares	12	105
Sales awaiting settlement	1,122	6,566
Accrued income	2,875	3,494
Other debtors	1	-
<b>Total debtors</b>	<b>4,010</b>	<b>10,165</b>

## Notes to the Financial Statements cont.

### 9 Cash and bank balances

	2018	2017
	£'000	£'000
Sterling amounts held at clearing houses and brokers	299	403
Foreign amounts held at clearing houses and brokers	417	443
Sterling bank accounts	3,784	3,310
Foreign currency bank accounts	977	-
Sterling bank accounts overdrawn	-	(66)
<b>Total cash and bank balances</b>	<b>5,477</b>	<b>4,090</b>

### 10 Other creditors

	2018	2017
	£'000	£'000
Payable for cancellation of shares	149	5,598
Purchases awaiting settlement	3,207	1,217
Due to the ACD or associates	18	25
Due to the Depositary or associates	6	9
Collateral held on behalf of counterparty	865	835
Other accrued expenses	7	9
<b>Total other creditors</b>	<b>4,252</b>	<b>7,693</b>

### 11 Related party transactions

Baillie Gifford & Co Limited, as ACD, is regarded as a related party by virtue of the services provided to the Company. Baillie Gifford & Co Limited acts as principal in respect of all transactions of shares in the Company, except where stocks are transferred on the issue or cancellation of shares. The aggregate monies received through issue and paid on cancellation are disclosed in the Statement of Change in Net Assets Attributable to Shareholders. Amounts receivable and payable on the issue and cancellation of shares have been disclosed in notes 8 and 10 respectively.

Amounts paid to Baillie Gifford & Co Limited in respect of ACD fees are disclosed in note 4 with amounts due at the year end given in note 10.

#### Shares held by the ACD and associates of the ACD

The shares held by the ACD and associates of the ACD as a percentage of the Fund's NAV were:

	2018	2017
	%	%
ACD and associates of the ACD	0.00	4.54

## Notes to the Financial Statements cont.

### 12 Reconciliation of shares in issue

	2018				
	A Income Shares	B Accumulation Shares	B Income Shares	C Accumulation Shares	C Income Shares
Opening shares in issue	2,629,259	12,242,810	80,725,890	42,508,644	1,818,775
Shares issued	401,113	731,420	3,990,188	602,106	815,000
Shares cancelled	(1,348,085)	(336,589)	(26,592,791)	(5,206,294)	-
Shares converted	(56,422)	9,546	34,826	-	-
<b>Closing shares in issue</b>	<b>1,625,865</b>	<b>12,647,187</b>	<b>58,158,113</b>	<b>37,904,456</b>	<b>2,633,775</b>

### 13 Basis of valuation

	2018		2017	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Level 1: Quoted prices	-	-	-	-
Level 2: Observable market data	164,035	-	195,727	-
Level 3: Unobservable data <sup>1</sup>	-	-	-	-
<b>Total</b>	<b>164,035</b>	<b>-</b>	<b>195,727</b>	<b>-</b>

<sup>1</sup>For further information on the assets included in Level 3, as at 30 September 2018, please refer to the Portfolio Statement.

### 14 Credit ratings

	2018		2017	
Rating Block	Market value £'000	Percentage of total Fund	Market value £'000	Percentage of total Fund
Investment Grade	156,077	92.63	189,102	93.96
High Yield	7,296	4.33	5,679	2.82
<b>Total Bonds - Direct</b>	<b>163,373</b>	<b>96.96</b>	<b>194,781</b>	<b>96.78</b>
Other	5,131	3.04	6,467	3.22
<b>Net Assets</b>	<b>168,504</b>	<b>100.00</b>	<b>201,248</b>	<b>100.00</b>

## Notes to the Financial Statements cont.

### 15 Derivatives and other financial instruments

#### Currency exposures

A proportion of the net assets of the Fund are denominated in currencies other than sterling, with the effect that the balance sheet and total return can be significantly affected by currency movements.

Currency	Net foreign currency assets/(liabilities)			Net foreign currency assets/(liabilities)		
	2018			2017		
	Monetary exposures £'000	Non-monetary exposures £'000	Total £'000	Monetary exposures £'000	Non-monetary exposures £'000	Total £'000
Canadian dollar	58	(169)	(111)	130	(435)	(305)
Euro	1,040	(114)	926	49	(226)	(177)
UK sterling	3,217	164,973	168,191	-	-	-
US dollar	296	(656)	(360)	264	390	654

Short term debtors and creditors have not been disclosed.

#### Interest rate risk profile of financial assets and financial liabilities

The interest rate risk profile of the Fund was:

Currency	2018				2017			
	Floating Rate financial assets £'000	Fixed Rate financial assets £'000	Financial assets not carrying interest £'000	Total £'000	Floating Rate financial assets £'000	Fixed Rate financial assets £'000	Financial assets not carrying interest £'000	Total £'000
Canadian dollar	58	4,424	-	4,482	130	7,840	-	7,970
Euro	1,040	5,239	-	6,279	49	3,867	-	3,916
UK sterling	4,082	127,603	37,370	169,055	3,713	162,440	33,558	199,711
US dollar	296	26,107	-	26,403	264	20,634	-	20,898

Currency	2018				2017			
	Floating Rate financial liabilities £'000	Fixed Rate financial liabilities £'000	Financial liabilities not carrying interest £'000	Total £'000	Floating Rate financial liabilities £'000	Fixed Rate financial liabilities £'000	Financial liabilities not carrying interest £'000	Total £'000
Canadian dollar	-	-	4,592	4,592	-	-	8,275	8,275
Euro	-	-	5,353	5,353	-	-	4,093	4,093
UK sterling	865	-	-	865	901	-	-	901
US dollar	-	-	26,763	26,763	-	-	20,245	20,245

## Notes to the Financial Statements cont.

### 15 Derivatives and other financial instruments (continued)

#### Fixed rate financial assets

	2018	2017
The weighted average interest rate of the fixed rate financial assets is:		
Canadian dollar denominated	3.93%	3.93%
Euro denominated	4.04%	2.89%
UK sterling denominated	2.78%	2.45%
US dollar denominated	4.61%	4.03%

The weighted average maturity of the fixed rate financial assets is:

Canadian dollar denominated	12.76 years	14.31 years
Euro denominated	43.82 years	41.44 years
UK sterling denominated	15.67 years	15.58 years
US dollar denominated	13.24 years	14.81 years

In addition the Fund may hold floating rate financial assets that comprise floating rate notes, index-linked government bonds, bank balances, collateral balances, the receive legs of interest rate swaps and the receive legs of inflation rate swaps, the returns on which are uncertain. The return on floating rate notes is dependent on certain factors which may include future interest rates, specific bond terms and price indices over the remaining life of the bonds. The return on index-linked bonds is dependent on changes in respective national price indices over the remaining life of the bonds. Bank balances bear interest at rates based on LIBOR or the foreign currency equivalent. Collateral held on the Fund's behalf by counterparties bears interest based on LIBOR or the foreign currency equivalent. The return on floating rate legs of interest rate swaps is dependent on the specific base rate against which the swap has been taken. The return on floating rate legs of inflation rate swaps is dependent on future inflation rates over the remaining life of the swaps.

#### Financial liabilities

The Fund may hold floating rate financial liabilities that comprise overdrawn bank balances, collateral balances, the pay legs of interest rate swaps and the pay legs of inflation rate swaps, the payments on which are uncertain. Overdrawn bank balances pay interest at rates based on LIBOR or the foreign currency equivalent. Collateral held on behalf of counterparties pay interest based on LIBOR or the foreign currency equivalent. The payment on floating rate legs of interest rate swaps is dependent on the specific base rate against which the swap has been taken. The payment on floating rate legs of inflation rate swaps is dependent on future inflation rates over the remaining life of the swap.

### 16 Derivative Exposure

The exposure to derivative counterparties was:

Counterparty	2018					2017				
	Forward	Inflation	Interest	Cash	Total	Forward	Inflation	Interest	Cash	Total
	currency contracts £'000	rate swaps £'000	rate swaps £'000	collateral held £'000	exposure £'000	currency contracts £'000	rate swaps £'000	rate swaps £'000	collateral held £'000	exposure £'000
HSBC	33	-	-	-	33	131	-	-	-	131
National Australia Bank	585	-	-	(865)	(280)	602	-	-	(685)	(83)
Royal Bank of Canada	45	-	-	-	45	212	-	-	(150)	62

Collateral pledged on derivatives was zero.

## Notes to the Financial Statements cont.

### 16 Derivative Exposure (continued)

In addition the Fund trades futures contracts through UBS. Fair value movements are offset by movements in the variation margin account which reduces the derivative counterparty exposure to nil.

### 17 Value at risk (VaR)

The market risk of the Fund's financial asset and liability positions is monitored by the Investment Adviser using VaR analysis. VaR analysis attempts to reflect the interdependencies between risk variables, unlike a traditional sensitivity analysis. VaR represents the potential losses from adverse changes in market factors for a specified time period and confidence level.

Model assumptions:

System	FIS Advanced Portfolio Technologies (APT)
VaR methodology:	variance covariance approach (with delta-adjustment)
Confidence level:	99%
Holding period:	1 month
Decay factor for exponential smoothing of historical market data:	nil
Historical observation period:	180 weeks

	2018	2017
	%	%
Fund VaR:	5.03	5.47
Index VaR:	4.52	4.86

The VaR noted above indicates the VaR of the Fund's financial instruments, measured as the potential 1 month loss in value from adverse changes in equity prices, interest rates, inflation and foreign currency exchange rates, with a 99% confidence level.

In combination with a snapshot of the portfolio and benchmark constituents at a given point in time, the APT risk model uses 180 weeks of historic data to formulate a prediction of risk over a desired time period. In the case of VaR numbers, the risk model produces a 1-month prediction of 99% VaR. The decay factor for exponential smoothing of the historic market data refers to how the risk model uses more recent data in its historic data window compared to older data. Using a positive decay factor would mean that the risk model is placing more importance on more recent data than on older data in formulating its prediction of risk – this would result in the risk model being more short-term in nature, and increasingly geared to short-term recent events. The decay factor used in the APT risk model for calculating VaR numbers is nil. This means that each of the 180 weeks of historic data used by the risk model are treated with equal importance in the model's calculation of predicted risk. This means that the risk model's prediction of risk will be influenced by the average variances and covariances of portfolio and comparative index constituents over the past 3½ years.

#### Objectives and limitations of the VaR methodology

The APT model uses statistical factor techniques to measure the effects of these risk variables on the value of the Fund. The VaR model is designed to measure market risk in a normal market environment.

The use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies significantly on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the given distribution assumption. VaR may also be under- or over-estimated due to the assumption placed on risk factors and the relationship between such factors for specific instruments.

Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level. In practice, the actual trading results will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions.



## Notes to the Financial Statements cont.

### 17 Value at risk (VaR) (continued)

and the parameters used in the VaR calculation. Market risk positions are also subject to regular stress tests to ensure that the Fund would withstand an extreme market event.

# Distribution Table

Interim distribution for the period ended 31 December 2017

Group 1 : shares purchased prior to 1 October 2017

Group 2 : shares purchased 1 October 2017 to 31 December 2017

	Net Revenue	Equalisation	Distribution (paid/accumulated 28.02.18)	Distribution (paid/accumulated 28.02.17)
	31.12.17 pence per share	31.12.17 pence per share	31.12.17 pence per share	31.12.16 pence per share
A Income				
Group 1	0.45000	-	0.45000	0.45000
Group 2	0.31479	0.13521	0.45000	0.45000
B Accumulation				
Group 1	1.25000	-	1.25000	1.50000
Group 2	0.72959	0.52041	1.25000	1.50000
B Income				
Group 1	0.60000	-	0.60000	0.60000
Group 2	0.22292	0.37708	0.60000	0.60000
C Accumulation				
Group 1	1.30000	-	1.30000	1.60000
Group 2	0.42540	0.87460	1.30000	1.60000
C Income				
Group 1	0.65000	-	0.65000	0.65000
Group 2	0.65000	-	0.65000	0.65000

## Distribution Table cont.

Interim distributions for the period ended 31 March 2018

Group 1 : shares purchased prior to 1 January 2018

Group 2 : shares purchased 1 January 2018 to 31 March 2018

	Net Revenue	Equalisation	Distribution (paid/accumulated 31.05.18)	Distribution (paid/accumulated 31.05.17)
	31.03.18 pence per share	31.03.18 pence per share	31.03.18 pence per share	31.03.17 pence per share
<b>A Income</b>				
Group 1	0.45000	-	0.45000	0.45000
Group 2	0.07352	0.37648	0.45000	0.45000
<b>B Accumulation</b>				
Group 1	1.25000	-	1.25000	1.50000
Group 2	0.17697	1.07303	1.25000	1.50000
<b>B Income</b>				
Group 1	0.60000	-	0.60000	0.60000
Group 2	0.05259	0.54741	0.60000	0.60000
<b>C Accumulation</b>				
Group 1	1.30000	-	1.30000	1.60000
Group 2	-	1.30000	1.30000	1.60000
<b>C Income</b>				
Group 1	0.65000	-	0.65000	0.65000
Group 2	0.65000	-	0.65000	0.65000

## Distribution Table cont.

Interim distribution for the period ended 30 June 2018

Group 1 : share purchased prior to 1 April 2018

Group 2 : share purchased 1 April 2018 to 30 June 2018

	Net Revenue	Equalisation	Distribution (paid/accumulated 31.08.18)	Distribution (paid/accumulated 31.08.17)
	30.06.18 pence per share	30.06.18 pence per share	30.06.18 pence per share	30.06.17 pence per share
<b>A Income</b>				
Group 1	0.45000	-	0.45000	0.45000
Group 2	-	0.45000	0.45000	0.45000
<b>B Accumulation</b>				
Group 1	1.25000	-	1.25000	1.50000
Group 2	-	1.25000	1.25000	1.50000
<b>B Income</b>				
Group 1	0.60000	-	0.60000	0.60000
Group 2	-	0.60000	0.60000	0.60000
<b>C Accumulation</b>				
Group 1	1.30000	-	1.30000	1.60000
Group 2	1.30000	-	1.30000	1.60000
<b>C Income</b>				
Group 1	0.65000	-	0.65000	0.65000
Group 2	0.65000	-	0.65000	0.65000

## Distribution Table cont.

Final distribution for the period ended 30 September 2018

Group 1 : shares purchased prior to 1 July 2018

Group 2 : shares purchased 1 July 2018 to 30 September 2018

	Net Revenue	Equalisation	Distribution (paid/accumulated 30.11.18)	Distribution (paid/accumulated 30.11.17)
	30.09.18 pence per share	30.09.18 pence per share	30.09.18 pence per share	30.09.17 pence per share
<b>A Income</b>				
Group 1	0.83000	-	0.83000	0.85000
Group 2	0.26320	0.56680	0.83000	0.85000
<b>B Accumulation</b>				
Group 1	2.49000	-	2.49000	1.83000
Group 2	0.71659	1.77341	2.49000	1.83000
<b>B Income</b>				
Group 1	1.23000	-	1.23000	1.23000
Group 2	0.34480	0.88520	1.23000	1.23000
<b>C Accumulation</b>				
Group 1	2.89000	-	2.89000	2.06000
Group 2	1.56100	1.32900	2.89000	2.06000
<b>C Income</b>				
Group 1	1.44000	-	1.44000	1.43000
Group 2	0.62530	0.81470	1.44000	1.43000

# BAILLIE GIFFORD

## Baillie Gifford Investment Grade Long Bond Fund

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a sub-fund of Baillie Gifford Bond Funds ICVC

*Annual Report and Financial Statements  
for the year ended 30 September 2018*



# Baillie Gifford Investment Grade Long Bond Fund

## Investment Objective

The Fund aims to produce attractive returns, 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, are used to protect or enhance the return of the Fund, including for investment purposes.

## 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 relevant material risks:

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 involves a risk of loss if the custodian becomes insolvent or breaches duties of care.

Bonds issued by companies and governments may be adversely affected by changes in interest rates, expectations of inflation and a decline in the creditworthiness of the bond issuer. The issuers of bonds in which the Fund invests may not be able to pay the bond income as promised or could fail to repay the capital amount.

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 result in the Fund being leveraged. This 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.

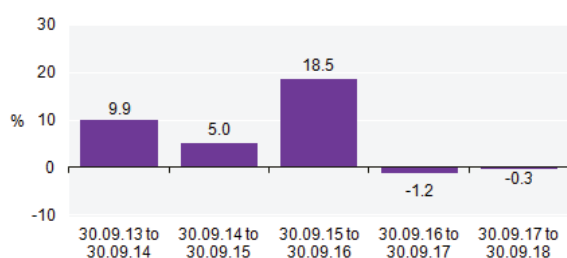
Market values for securities which are difficult to trade may not be readily available, and there can be no assurance that any value assigned to them will reflect the price the Fund might receive upon their sale.

The result of the UK Referendum on membership of the European Union introduces elements of political uncertainty and may have practical consequences for the Fund. Developments will be closely monitored.

Further details of the risks associated with investing in the Fund can be found in the Prospectus which is available by contacting Client Relations or visiting our website.

# Investment Report

## Past Performance<sup>1</sup>



The performance figures shown in this graph are for Class B Income Shares. Performance figures reflect the ACD's annual fee of 0.25%, but exclude any initial charge paid. Please note these returns differ from the returns quoted 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 contacting Client Relations. You should be aware that past performance is not a guide to future performance.

For the year to 30 September 2018 the return on B Income Shares was 0.4%<sup>2</sup>, compared to the return on the Bank of America Merrill Lynch Sterling Non-Gilts Over 10 Year Index of -0.1%<sup>3</sup>.

This was a solid result for a credit fund that was running with a higher credit spread than its comparative index at the start of the period.

The Fund gained from positive stock selection. This included a perpetual bond of Standard Life, which was bought back at a premium, adding materially to the Fund's performance. We did not own Dignity Finance, a constituent of the comparative index which had a poor time in the early part of 2018, and we did then subsequently buy it at what we think was a good valuation level. Holdings of British Land and Sainsbury's Bank added to the Fund's relative performance over the twelve months. Holdings which cost the Fund performance during the year, included Newell Brands of the U.S. and Telecom Italia. We expect the bonds of these firms to perform better in coming years, and we are watching their progress against our established milestones.

We were overweight in relation to the comparative index relatively defensive instruments and underweight in the higher beta parts of the credit market. The Fund was underweight in insurance bonds and consumer-exposed bonds for example. That positioning

proved to be sensible in the time period as credit spreads generally drifted wider and the higher beta parts of the market performed quite poorly.

During the course of the year, there were modest changes to the overall Fund composition. These were a small move from bonds of insurance companies to bonds of banks, and a move to be even less weighted to industrial companies. The other main characteristics of the Fund are broadly similar to where they were twelve months ago.

The portfolio is currently positioned defensively. Outperformance in the coming year will likely come as a result of a handful of specific situations evolving in the way we expect, and ownership of assets that become more attractive (and valuable) when markets do not perform very well. The rationale for this positioning is quite similar to our view a year ago. Although markets have begun to shift and valuations are more attractive than they were, we think the overall levels of debt within the corporate world, combined with central bank actions, make generic credit appear poor value. Debt levels are high, valuations remain quite expensive and very large buyers of bonds, central banks, are buying less than they have been buying and plan to reduce that purchasing level even further. We are however, still finding pockets of opportunity within individual bonds and continue to expect bond selection to be the key source of added value.

<sup>1</sup>Source: FE, 10am dealing prices, income reinvested, after charges. <sup>2</sup>Source: Baillie Gifford & Co Limited, closing mid prices, income reinvested, after charges. <sup>3</sup>Source: FE and relevant underlying index provider, total return. Please see Disclaimer on page 296. You should be aware that past performance is not a guide to future performance.



## Investment Report cont.

*Gregory Turnbull Schwartz, 2 November 2018*

## Principal Bond Holdings as at 30 September 2018

Investment	Percentage of total Fund
EIB 5% 2039	3.40
Network Rail 4.75% 2035	2.62
KFW 5.75% 2032	2.46
LCR Finance 5.1% 2051	2.06
Dwr Cymru 6.015% 2028	1.99
SNCF Reseau 5.25% 2035	1.90
IBRD 5.75% 2032	1.72
National Grid 5.625% 2025/73	1.63
KFW 5% 2036	1.61
Aster 4.5% 2043	1.61

## Material Portfolio Changes for the year ended 30 September 2018

Largest Purchases	Cost £'000	Largest Sales	Proceeds £'000
Manchester Airport 2.875% 2039	3,731	Barclays 3.25% 2027	4,035
Citigroup 8.125% 2039	3,037	Unicredit 5.861% 2032	3,490
Rabobank Group 4% 2029	2,902	AT&T 3.55% 2037	3,375
Vodafone 4.625% 2078	2,681	Mitchells & Butlers 6.469% 15/09/2030	3,293
UBI 4.25% 2021/26	2,677	Citigroup 7.375% 2039	3,242
Enel 5.75% 2040	2,541	GE Capital 5.375% 2040	2,933
Housing & Care 3.288% 2049	2,530	DONG Energy 5.75% 2040	2,870
Anheuser-Busch 2.25% 2029	2,491	Centrica 4.25% 2044	2,822
UK Treasury 4.25% 07/06/2032	2,420	Standard Chartered Bank 4.375% 2038	2,641
UK Treasury 4.25% 07/03/2036	2,418	EIB 5% 2039	2,616

The largest purchases and sales of bonds have been shown.

# Portfolio Statement as at 30 September 2018

Stock description	Holding	Market value £'000	% of total net assets
<b>Agency - 2.33% (2.09%)</b>			
SNCF Reseau 4.83% 2060	580,000	926	0.43
SNCF Reseau 5.25% 2035	2,957,000	4,069	1.90
<b>Asset Backed - 9.75% (11.23%)</b>			
Channel Link 3.043% 2029 (A5)	3,195,000	3,122	1.46
Dignity Finance 4.6956% 2049	2,120,000	1,984	0.93
Dwr Cymru 6.015% 2028	3,275,000	4,269	1.99
Freshwater Finance 5.182% 2035	2,521,000	3,259	1.52
Lunar Funding 1 5.75% 2033	1,858,000	2,497	1.17
Mitchells & Butlers 6.013% 15/12/2028	1,318,000	1,337	0.62
Mitchells & Butlers 6.469% 15/09/2030	1,649,000	1,867	0.87
Yorkshire Water 5.5% 2037	1,900,000	2,536	1.19
<b>Banking - 11.07% (11.61%)</b>			
Bank of America 7% 2028	2,500,000	3,354	1.57
Citigroup 8.125% 2039	2,425,000	2,696	1.26
HSBC 6.25% 2041	700,000	952	0.45
HSBC Holdings 6% 2040	1,780,000	2,204	1.03
HSBC Holdings 7% 2038	1,600,000	2,190	1.02
Rabobank Groep 5.375% 2060	1,200,000	1,765	0.82
Rabobank Group 4% 2029	3,400,000	2,509	1.17
Sainsbury Bank 6% 2022/27	790,000	809	0.38
Santander Holdings USA 4.4% 2027	1,400,000	1,030	0.48
Standard Chartered Bank 5.125% 2034	1,183,000	1,249	0.58
UBI 4.25% 2021/26	2,480,000	2,184	1.02
Yorkshire Building Society 3.375% 2027/28	2,970,000	2,767	1.29
<b>Basic Industry - 0.92% (1.24%)</b>			
Praxair 3.55% 2042	2,790,000	1,973	0.92
<b>Capital Goods - 2.67% (3.45%)</b>			
DS Smith 2.875% 2029	1,100,000	1,050	0.49
Fortive Corporation 3.15% 2026	2,510,000	1,792	0.84
GE Capital 5.375% 2040	1,018,000	1,321	0.62

## Portfolio Statement as at 30 September 2018 cont.

Stock description	Holding	Market value £'000	% of total net assets
GE Capital 8% 2039	936,000	1,544	0.72
<b>Commercial Mortgage Backed - 4.24% (4.52%)</b>			
BBC 5.0636% 2033	2,903,000	2,962	1.39
BBC White City Property 5.1202% 2035	1,468,000	1,612	0.75
Telereal 5.5534% 2031/33 (A3)	2,102,000	1,970	0.92
Telereal 5.9478% 2031/33 (A4)	2,645,000	2,527	1.18
<b>Consumer Goods - 2.61% (1.23%)</b>			
Anheuser-Busch 2.25% 2029	2,510,000	2,364	1.10
Anheuser-Busch 9.75% 2024	780,000	1,092	0.51
Newell Brands 5.5% 2046	2,920,000	2,130	1.00
<b>Energy - 1.21% (1.25%)</b>			
Statoil 6.875% 2031	1,780,000	2,588	1.21
<b>Financial Services - 1.55% (1.65%)</b>			
Close Brothers 2.75% 2023	927,000	922	0.43
Moody's Corp 5.25% 2044	1,579,000	1,321	0.62
Motability 3.625% 2036	977,000	1,085	0.50
<b>Government Guaranteed - 10.43% (11.27%)</b>			
KFW 5% 2036	2,380,000	3,454	1.61
KFW 5.75% 2032	3,605,000	5,258	2.46
KFW 6% 2028	535,000	743	0.35
LCR Finance 4.5% 2028	1,436,000	1,787	0.83
LCR Finance 5.1% 2051	2,616,000	4,407	2.06
Network Rail 4.375% 2030	849,000	1,074	0.50
Network Rail 4.75% 2035	4,051,000	5,613	2.62
<b>Health Care - 2.69% (1.97%)</b>			
GlaxoSmithKline 4.25% 2045	930,000	1,143	0.53
GlaxoSmithKline 5.25% 2033	800,000	1,048	0.49
GlaxoSmithKline 5.25% 2042	1,155,000	1,596	0.75

## Portfolio Statement as at 30 September 2018 cont.

Stock description	Holding	Market value £'000	% of total net assets
Pfizer 2.735% 2043	2,011,000	1,970	0.92
<b>Insurance - 2.80% (3.63%)</b>			
Legal & General 5.5% 2064	2,790,000	2,833	1.33
Standard Life 6.75% 2027 Perp	2,357,000	3,154	1.47
<b>Media - 0.69% (2.10%)</b>			
Daily Mail & General Trust 6.375% 2027	1,300,000	1,477	0.69
<b>Real Estate - 8.13% (7.92%)</b>			
Annington Funding 3.184% 2029	699,000	690	0.32
Annington Funding 3.685% 2034	650,000	654	0.31
Aster 4.5% 2043	2,838,000	3,446	1.61
British Land 5.264% 2035 (Bearer)	2,750,000	3,415	1.60
Housing & Care 3.288% 2049	2,090,000	2,060	0.96
Sovereign Housing Capital 4.768% 2043	2,391,000	3,020	1.41
Welltower 4.5% 2034	2,620,000	2,867	1.34
Welltower 4.8% 2028	1,115,000	1,247	0.58
<b>Retail - 0.00% (0.88%)</b>			
<b>Services - 2.03% (2.13%)</b>			
University of Cambridge 3.75% 2052	1,486,000	1,901	0.89
University of Leeds 3.125% 2050	1,856,000	1,975	0.92
University of Oxford 2.544% 2117	530,000	477	0.22
<b>Sovereign - 2.23% (0.89%)</b>			
UK Treasury 1.75% 07/09/2037	1,440,000	1,408	0.66
UK Treasury 4% 22/01/2060	244,981	401	0.19
UK Treasury 4.25% 07/06/2032	1,590,000	2,079	0.97
UK Treasury 4.25% 07/12/2027	720,000	893	0.41
<b>Supranational - 6.61% (6.71%)</b>			
EIB 3.875% 2037	780,000	992	0.46
EIB 4.5% 2044	700,000	1,020	0.47

## Portfolio Statement as at 30 September 2018 cont.

Stock description	Holding	Market value £'000	% of total net assets
EIB 4.625% 2054	730,000	1,193	0.56
EIB 5% 2039	4,915,000	7,271	3.40
IBRD 5.75% 2032	2,525,000	3,680	1.72
<b>Technology &amp; Electronics - 1.12% (0.00%)</b>			
Booking Holdings 3.6% 2026	3,215,000	2,396	1.12
<b>Telecommunications - 8.76% (6.25%)</b>			
AT&T 4.375% 2029	2,000,000	2,160	1.01
AT&T 5.3% 2058 144A	2,780,000	2,035	0.95
AT&T 7% 2040	2,050,000	2,917	1.36
Bell Canada 4.75% 2044	4,400,000	2,694	1.26
British Telecom 3.125% 2031	1,620,000	1,570	0.73
France Telecom 5.625% 2034	747,000	963	0.45
Orange SA 8.5% 2031	1,250,000	1,360	0.64
Telecom Italia 7.721% 2038	1,675,000	1,374	0.64
Vodafone 3% 2056	1,220,000	1,020	0.48
Vodafone 4.625% 2078	3,000,000	2,664	1.24
<b>Transportation - 1.40% (0.00%)</b>			
Manchester Airport 2.875% 2039	3,175,000	2,999	1.40
<b>Utilities - 14.19% (15.69%)</b>			
Centrica 4.25% 2044	2,053,000	2,289	1.07
DONG Energy 5.75% 2040	2,465,000	3,410	1.59
E.ON 6.75% 2039	1,900,000	2,779	1.30
EDF 5.125% 2050	1,050,000	1,285	0.60
EDF 5.5% 2037	800,000	985	0.46
EDF 5.5% 2041	1,800,000	2,256	1.06
EDF 5.875% 2029 Perp	1,200,000	1,183	0.55
EDF 6% 2114	1,800,000	2,308	1.08
Enel 5.75% 2040	1,540,000	1,924	0.90
Engie SA 5% 2060	700,000	1,013	0.47
National Grid 5.625% 2025/73	3,199,000	3,499	1.63
RWE 6.125% 2039	1,550,000	2,125	0.99

## Portfolio Statement as at 30 September 2018 cont.

Stock description	Holding	Market value £'000	% of total net assets
Severn Trent 2.75% 2031	2,780,000	2,696	1.26
TXU Eastern Funding 7.25% 2030 <sup>1</sup>	187,000	-	0.00
Western Power Dist West 5.75% 2032	2,050,000	2,629	1.23
<b>Derivatives - 0.23% (0.35%)</b>			
Forward currency contracts (see Table 1)		511	0.24
Futures contracts (see Table 2)		-	0.00
Interest rate swaps contracts (see Table 3)		(23)	(0.01)
Portfolio of investments		209,095	97.66
<b>Net other assets - 2.34% (1.94%)</b>		<b>5,012</b>	<b>2.34</b>
<b>Net assets</b>		<b>214,107</b>	<b>100.00</b>

<sup>1</sup>The issuer of this bond was in administration at the year end, therefore the bond has been valued at the Investment Adviser's valuation.

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

Unless otherwise stated the above holdings are in fixed interest securities.

Figures in brackets in the investment category headings refer to 30 September 2017.

**Table 1: Unrealised gains/(losses) on open forward currency contracts**

Counterparty	Settlement	Buy	Buy Amount	Sell	Sell Amount	Unrealised gains/(losses) £'000	% of total net assets
HSBC	15/11/18	GBP	5,019,187	EUR	5,610,000	14	0.01
National Australia Banks	15/11/18	GBP	21,730,223	USD	27,791,000	465	0.22
Royal Bank of Canada	15/11/18	GBP	3,338,573	CAD	5,580,000	32	0.01
Unrealised gains/(losses) on open forward currency contracts						511	0.24



## Portfolio Statement as at 30 September 2018 cont.

**Table 2: Unrealised gains/(losses) on futures contracts**

Futures	Maturity	Notional	Unrealised gains/(losses) £'000	% of total net assets
Euro-Bobl Future December 2018	10/12/18	7	-	0.00
Euro-Bund Future December 2018	10/12/18	10	-	0.00
Italy 10 Year Bond Future December 2018	10/12/18	(14)	-	0.00
Long Gilt Future 10 Year December 2018	31/12/18	322	-	0.00
Short Euro BTP Future December 2018	10/12/18	(12)	-	0.00
US 10 Year Note Future December 2018	31/12/18	(89)	-	0.00
US Long Bond (CBT) December 2018	31/12/18	(33)	-	0.00
US Ultra Long (CBT) December 2018	31/12/18	(61)	-	0.00
Unrealised gains/(losses) on futures contracts			-	0.00

**Table 3: Unrealised gains/(losses) on open interest rate swap contracts**

Counterparty	Ccy	Termination	Notional	Fund pays	Fund receives	Unrealised gains/(losses) £'000	% of total net assets
JP Morgan Chase	GBP	07/06/46	2,570,000	LIBOR 6 Month	1.7135%	(23)	(0.01)
Unrealised gains/(losses) on open interest rate swap contracts						(23)	(0.01)

# Comparative Tables

## Comparative Table: B Accumulation Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Period Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	262.89	265.32	231.40 <sup>1</sup>
Return before operating charges*	1.82	(1.70)	34.27
Operating charges	(0.75)	(0.73)	(0.35)
Return after operating charges*	1.07	(2.43)	33.92
Distributions	(8.43)	(8.40)	(4.15)
Retained distributions on accumulation shares	8.43	8.40	4.15
<b>Closing net asset value per share</b>	<b>263.96</b>	<b>262.89</b>	<b>265.32</b>
*After direct transaction costs of:	0.00	0.00	0.00
<b>Performance:</b>			
Return after charges	0.41%	(0.92)%	14.66%
<b>Other Information:</b>			
Closing net asset value (£'000)	36,728	65,796	29,024
Closing number of shares	13,914,229	25,027,765	10,939,432
Operating charges	0.28%	0.28%	0.29%
Direct transaction costs <sup>2</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	273.2	274.2	274.8
Lowest share price (pence)	260.0	244.4	230.5

## Comparative Tables cont.

### Comparative Table: B Income Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	129.22	134.69	117.60
Return before operating charges*	0.92	(0.88)	22.14
Operating charges	(0.36)	(0.37)	(0.36)
Return after operating charges*	0.56	(1.25)	21.78
Distributions on income shares	(4.11)	(4.22)	(4.69)
<b>Closing net asset value per share</b>	<b>125.67</b>	<b>129.22</b>	<b>134.69</b>
 *After direct transaction costs of:	 0.00	 0.00	 0.00
<b>Performance:</b>			
Return after charges	0.43%	(1.07)%	17.72%
<b>Other Information:</b>			
Closing net asset value (£'000)	73,847	81,272	95,247
Closing number of shares	58,761,165	62,896,381	70,718,080
Operating charges	0.28%	0.28%	0.28%
Direct transaction costs <sup>2</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	134.3	136.6	140.4
Lowest share price (pence)	127.1	123.9	116.1

## Comparative Tables cont.

### Comparative Table: C Accumulation Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	263.86	265.65	222.70
Return before operating charges*	1.81	(1.71)	43.02
Operating charges	(0.08)	(0.08)	(0.07)
Return after operating charges*	1.73	(1.79)	42.95
Distributions	(9.13)	(9.06)	(9.61)
Retained distributions on accumulation shares	9.13	9.06	9.61
<b>Closing net asset value per share</b>	<b>265.59</b>	<b>263.86</b>	<b>265.65</b>
*After direct transaction costs of:	0.00	0.00	0.00
<b>Performance:</b>			
Return after charges	0.66%	(0.67)%	19.29%
<b>Other Information:</b>			
Closing net asset value (£'000)	81,207	96,134	152,906
Closing number of shares	30,576,244	36,434,112	57,559,349
Operating charges	0.03%	0.03%	0.03%
Direct transaction costs <sup>2</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	274.4	275.1	275.0
Lowest share price (pence)	261.2	244.8	220.5

## Comparative Tables cont.

### Comparative Table: C Income Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	131.06	136.61	119.20
Return before operating charges*	0.95	(0.90)	22.53
Operating charges	(0.04)	(0.04)	(0.04)
Return after operating charges*	0.91	(0.94)	22.49
Distributions on income shares	(4.50)	(4.61)	(5.08)
<b>Closing net asset value per share</b>	<b>127.47</b>	<b>131.06</b>	<b>136.61</b>
 *After direct transaction costs of:	 0.00	 0.00	 0.00
<b>Performance:</b>			
Return after charges	0.69%	(0.83)%	18.01%
<b>Other Information:</b>			
Closing net asset value (£'000)	22,325	1	1
Closing number of shares	17,513,701	1,000	1,000
Operating charges	0.03%	0.03%	0.03%
Direct transaction costs <sup>2</sup>	0.00%	0.00%	0.00%
<b>Prices:</b>			
Highest share price (pence)	136.3	138.8	142.5
Lowest share price (pence)	129.0	125.7	117.9

<sup>1</sup>Class B Accumulation Shares were launched on 1 April 2016.

<sup>2</sup>The Fund incurs broker commission and transfer taxes/stamp duty as a necessary part of buying and selling the Fund's underlying investments in order to achieve the investment objective. Commission is also payable to the counterparty on the trading of future contracts.

A dilution adjustment is made whenever dealings in the shares of the Fund result in shares being issued or cancelled by the Company. The adjustment will take account of any spread between the buying and selling prices of the Fund's investments and the costs (which may include dealing charges and taxes) of acquiring or disposing of such investments. Please note that the direct transaction cost disclosures above do not include the dilution adjustment charges. For further details on dilution adjustment charges please see the General Information section.

# Financial Statements

## Statement of Total Return for the year ended 30 September 2018

		2018		2017	
	Notes	£'000	£'000	£'000	£'000
Income					
Net capital gains/(losses)	1		(6,173)		(11,067)
Revenue	3	8,139		8,915	
Expenses	4	(404)		(435)	
Net revenue before taxation		7,735		8,480	
Taxation	5	-		-	
Net revenue after taxation			7,735		8,480
Total return before distributions			1,562		(2,587)
Distributions	6		(7,735)		(8,480)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>(6,173)</b>		<b>(11,067)</b>

## Statement of Change in Net Assets Attributable to Shareholders for the year ended 30 September 2018

	2018		2017	
	£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>		<b>243,203</b>		<b>277,181</b>
Amounts receivable on issue of shares	38,534		14,765	
Amounts payable on cancellation of shares	(66,307)		(43,523)	
		(27,773)		(28,758)
Dilution adjustment		446		266
Change in net assets attributable to shareholders from investment activities		(6,173)		(11,067)
Retained distributions on accumulation shares		4,404		5,581
<b>Closing net assets attributable to shareholders</b>		<b>214,107</b>		<b>243,203</b>

## Financial Statements cont.

### Balance Sheet as at 30 September 2018

	Notes	2018 £'000	2017 £'000
<b>Assets:</b>			
Fixed assets:			
Investments	13	209,118	238,477
Current assets:			
Debtors	8	11,280	4,807
Cash and bank balances	9	4,088	2,865
<b>Total assets</b>		<b>224,486</b>	<b>246,149</b>
<b>Liabilities:</b>			
Investment liabilities	13	(23)	-
Creditors:			
Distributions payable		(1,461)	(1,120)
Other creditors	10	(8,895)	(1,826)
<b>Total liabilities</b>		<b>(10,379)</b>	<b>(2,946)</b>
<b>Net assets attributable to shareholders</b>		<b>214,107</b>	<b>243,203</b>

# Notes to the Financial Statements

## 1 Net capital gains/(losses)

	2018	2017
	£'000	£'000
Non-derivative securities	(6,242)	(11,834)
Derivative contracts	846	372
Forward currency contracts	(781)	423
Currency gains/(losses)	7	(27)
Transaction costs	(3)	(1)
<b>Net capital gains/(losses)</b>	<b>(6,173)</b>	<b>(11,067)</b>

## 2 Purchases, sales and transaction costs

	2018	2017
	£'000	£'000
<b>Purchases and transaction costs</b>		
Gross purchases of bonds excluding transaction costs <sup>1</sup>	79,147	100,775
<b>Purchases including transaction costs</b>	<b>79,147</b>	<b>100,775</b>

<sup>1</sup>There were no transaction costs on the purchase of bonds.

	2018	2017
	£'000	£'000
<b>Sales and transaction costs</b>		
Gross sales of bonds excluding transaction costs <sup>1</sup>	100,726	121,835
<b>Sales net of transaction costs</b>	<b>100,726</b>	<b>121,835</b>

<sup>1</sup>There were no transaction costs on the sale of bonds.

	2018	2017
	£'000	£'000
<b>Transaction cost on derivative contracts</b>		
Commission on trading futures contracts	8	8



## Notes to the Financial Statements cont.

### 2 Purchases, sales and transaction costs (continued)

	2018		2017	
	£'000	% of average NAV	£'000	% of average NAV
<b>Portfolio transaction costs</b>				
Commissions	8	0.00	8	0.00
Taxes	-	0.00	-	0.00
<b>Total direct transaction costs</b>	<b>8</b>	<b>0.00</b>	<b>8</b>	<b>0.00</b>
			2018	2017
			%	%
Average portfolio dealing spread			0.76	0.82

The Fund incurs broker commission and transfer taxes/stamp duty as a necessary part of buying and selling the Fund's underlying investments in order to achieve the investment objective. Commission is also payable to the counterparty on the trading of futures contracts.

Dilution adjustment charges, which do not form part of the direct transaction costs disclosures above, may be incurred as a result of trading in underlying funds. For further details on dilution adjustment charges please see the General Information section.

Dealing spread is the difference in the buying and selling prices of the underlying investments. Dealing spreads vary considerably depending on the transaction value and market sentiment. The Fund may have holdings in single priced funds. The notional spread on these holdings is not included in the average dealing spread calculated for this Fund.

### 3 Revenue

	2018	2017
	£'000	£'000
Interest on debt securities	8,121	8,892
Bank interest	10	23
Swaps interest	8	-
<b>Total revenue</b>	<b>8,139</b>	<b>8,915</b>

## Notes to the Financial Statements cont.

### 4 Expenses

	2018	2017
	£'000	£'000
<b>Payable to the ACD, associates of the ACD and agents of either of them:</b>		
ACD's periodic charge	346	370
<b>Payable to the Depositary, associates of the Depositary and agents of either of them:</b>		
Depositary's fee	27	30
Bank charges	24	27
	51	57
<b>Other expenses:</b>		
Audit fee	7	8
<b>Total expenses</b>	<b>404</b>	<b>435</b>

### 5 Taxation

	2018	2017
	£'000	£'000
<b>Analysis of charge in the year</b>		
Corporation tax	-	-
<b>Total taxation</b>	<b>-</b>	<b>-</b>

The Fund is subject to corporation tax at 20% (2017: 20%), however, the Fund is a bond fund making interest distributions and the interest distributions made by the Fund are allowable in arriving at the amount of revenue liable to tax. As a result, this has reduced the corporation tax liability of the Fund to nil.

The deduction of the interest distribution has been restricted to reflect the priority utilisation of the management expenses incurred by the Fund in the year, as per regulation 13(1A) of SI 2006/964. This results in no excess management expenses or interest distribution being carried forward.

The tax charge is explained as follows:

	2018	2017
	£'000	£'000
Net revenue/(expense) before taxation	7,735	8,480
Net revenue before taxation multiplied by the standard rate of corporation tax of 20% (2017: 20%)	1,547	1,696
Effects of:		
Interest distributions	(1,547)	(1,696)
<b>Total taxation</b>	<b>-</b>	<b>-</b>

## Notes to the Financial Statements cont.

### 6 Distributions

	2018	2017
	£'000	£'000
Interim to 31 December	1,479	1,963
Interim to 31 March	1,482	1,700
Interim to 30 June	1,447	1,707
Final to 30 September	3,106	2,911
	<b>7,514</b>	<b>8,281</b>
Amounts deducted on cancellation of shares	788	321
Amounts added on issue of shares	(567)	(122)
<b>Total distributions</b>	<b>7,735</b>	<b>8,480</b>

The distributions take account of revenue transactions on the issue and cancellation of shares. Details of the distributions per share are set out in the Distribution Tables.

### 7 Reconciliation of net revenue to net distributions for the year

	2018	2017
	£'000	£'000
Net revenue after taxation for the year	7,735	8,480
<b>Net distributions for the year</b>	<b>7,735</b>	<b>8,480</b>

### 8 Debtors

	2018	2017
	£'000	£'000
Receivable for issue of shares	5,503	299
Sales awaiting settlement	2,684	863
Accrued income	3,092	3,645
Other debtors	1	-
<b>Total debtors</b>	<b>11,280</b>	<b>4,807</b>

### 9 Cash and bank balances

	2018	2017
	£'000	£'000
Sterling amounts held at clearing houses and brokers	727	831
Foreign amounts held at clearing houses and brokers	425	481
Sterling bank accounts	2,936	1,553
<b>Total cash and bank balances</b>	<b>4,088</b>	<b>2,865</b>

## Notes to the Financial Statements cont.

### 10 Other creditors

	2018	2017
	£'000	£'000
Payable for cancellation of shares	148	92
Purchases awaiting settlement	8,130	866
Due to the ACD or associates	22	30
Due to the Depositary or associates	8	9
Collateral held on behalf of counterparty	580	820
Other accrued expenses	7	9
<b>Total other creditors</b>	<b>8,895</b>	<b>1,826</b>

### 11 Related party transactions

Baillie Gifford & Co Limited, as ACD, is regarded as a related party by virtue of the services provided to the Company. Baillie Gifford & Co Limited acts as principal in respect of all transactions of shares in the Company, except where stocks are transferred on the issue or cancellation of shares. The aggregate monies received through issue and paid on cancellation are disclosed in the Statement of Change in Net Assets Attributable to Shareholders. Amounts receivable and payable on the issue and cancellation of shares have been disclosed in notes 8 and 10 respectively.

Amounts paid to Baillie Gifford & Co Limited in respect of ACD fees are disclosed in note 4 with amounts due at the year end given in note 10.

#### Shares held by the ACD and associates of the ACD

The shares held by the ACD and associates of the ACD as a percentage of the Fund's NAV were:

	2018	2017
	%	%
ACD and associates of the ACD	0.00	3.52

### 12 Reconciliation of shares in issue

	2018			
	B Accumulation Shares	B Income Shares	C Accumulation Shares	C Income Shares
Opening shares in issue	25,027,765	62,896,381	36,434,112	1,000
Shares issued	7,487,302	2,228,906	6,038,922	248,022
Shares cancelled	(19,022,817)	(6,364,122)	(2,894,990)	(118,412)
Shares converted	421,979	-	(9,001,800)	17,383,091
<b>Closing shares in issue</b>	<b>13,914,229</b>	<b>58,761,165</b>	<b>30,576,244</b>	<b>17,513,701</b>

## Notes to the Financial Statements cont.

### 13 Basis of valuation

	2018		2017	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Level 1: Quoted prices	-	-	-	-
Level 2: Observable market data	209,118	(23)	238,477	-
Level 3: Unobservable data <sup>1</sup>	-	-	-	-
<b>Total</b>	<b>209,118</b>	<b>(23)</b>	<b>238,477</b>	<b>-</b>

<sup>1</sup>For further information on the assets included in Level 3, as at 30 September 2018, please refer to the Portfolio Statement.

### 14 Credit ratings

Rating Block	2018		2017	
	Market value £'000	Percentage of total Fund	Market value £'000	Percentage of total Fund
Investment Grade	198,912	92.90	229,436	94.34
High Yield	9,695	4.53	8,188	3.37
<b>Total Bonds - Direct</b>	<b>208,607</b>	<b>97.43</b>	<b>237,624</b>	<b>97.71</b>
Other	5,500	2.57	5,579	2.29
<b>Net Assets</b>	<b>214,107</b>	<b>100.00</b>	<b>243,203</b>	<b>100.00</b>

### 15 Derivatives and other financial instruments

#### Currency exposures

A substantial proportion of the net assets of the Fund are denominated in currencies other than sterling, with the effect that the balance sheet and total return can be significantly affected by currency movements.

Currency	Net foreign currency assets/(liabilities)			Net foreign currency assets/(liabilities)		
	2018			2017		
	Monetary exposures £'000	Non-monetary exposures £'000	Total £'000	Monetary exposures £'000	Non-monetary exposures £'000	Total £'000
Canadian dollar	-	(613)	(613)	79	(207)	(128)
Euro	108	(158)	(50)	-	-	-
UK sterling	3,083	210,515	213,598	1,564	239,480	241,044
US dollar	318	(649)	(332)	402	(796)	(394)

Short term debtors and creditors have not been disclosed.

## Notes to the Financial Statements cont.

### 15 Derivatives and other financial instruments (continued)

#### Interest rate risk profile of financial assets and financial liabilities

The interest rate risk profile of the Fund was:

Currency	2018				2017			
	Floating Rate financial assets £'000	Fixed Rate financial assets £'000	Financial assets not carrying interest £'000	Total £'000	Floating Rate financial assets £'000	Fixed Rate financial assets £'000	Financial assets not carrying interest £'000	Total £'000
Canadian dollar	-	2,694	-	2,694	79	3,115	-	3,194
Euro	108	4,848	-	4,955	-	-	-	-
UK sterling	6,199	180,460	30,088	216,748	2,384	209,616	29,864	241,864
US dollar	318	20,616	-	20,934	402	24,893	-	25,295

Currency	2018				2017			
	Floating Rate financial liabilities £'000	Fixed Rate financial liabilities £'000	Financial liabilities not carrying interest £'000	Total £'000	Floating Rate financial liabilities £'000	Fixed Rate financial liabilities £'000	Financial liabilities not carrying interest £'000	Total £'000
Canadian dollar	-	-	3,306	3,306	-	-	3,322	3,322
Euro	-	-	5,005	5,005	-	-	-	-
UK sterling	3,149	-	-	3,149	820	-	-	820
US dollar	-	-	21,266	21,266	-	-	25,689	25,689

#### Fixed rate financial assets

	2018	2017
The weighted average interest rate of the fixed rate financial assets is:		
Canadian dollar denominated	4.54%	3.93%
Euro denominated	4.26%	2.89%
UK sterling denominated	3.06%	2.45%
US dollar denominated	4.84%	4.03%

The weighted average maturity of the fixed rate financial assets is:

Canadian dollar denominated	26.02 years	14.31 years
Euro denominated	36.15 years	41.44 years
UK sterling denominated	21.25 years	15.58 years
US dollar denominated	18.90 years	14.81 years

In addition the Fund may hold floating rate financial assets that comprise floating rate notes, index-linked government bonds, bank balances, collateral balances, the receive legs of interest rate swaps and the receive legs of inflation rate swaps, the returns on which are uncertain. The return on floating rate notes is dependent on certain factors which may include future interest rates, specific bond terms and

## Notes to the Financial Statements cont.

### 15 Derivatives and other financial instruments (continued)

price indices over the remaining life of the bonds. The return on index-linked bonds is dependent on changes in respective national price indices over the remaining life of the bonds. Bank balances bear interest at rates based on LIBOR or the foreign currency equivalent. Collateral held on the Fund's behalf by counterparties bears interest based on LIBOR or the foreign currency equivalent. The return on floating rate legs of interest rate swaps is dependent on the specific base rate against which the swap has been taken. The return on floating rate legs of inflation rate swaps is dependent on future inflation rates over the remaining life of the swaps.

#### Financial liabilities

The Fund may hold floating rate financial liabilities that comprise overdrawn bank balances, collateral balances, the pay legs of interest rate swaps and the pay legs of inflation rate swaps, the payments on which are uncertain. Overdrawn bank balances pay interest at rates based on LIBOR or the foreign currency equivalent. Collateral held on behalf of counterparties pay interest based on LIBOR or the foreign currency equivalent. The payment on floating rate legs of interest rate swaps is dependent on the specific base rate against which the swap has been taken. The payment on floating rate legs of inflation rate swaps is dependent on future inflation rates over the remaining life of the swap.

### 16 Derivative Exposure

The exposure to derivative counterparties was:

Counterparty	2018				2017			
	Forward	Interest	Cash	Total	Forward	Interest	Cash	Total
	currency contracts £'000	rate swaps £'000	collateral held £'000	exposure £'000	currency contracts £'000	rate swaps £'000	collateral held £'000	exposure £'000
HSBC	14	-	-	14	-	-	-	-
National Australia Bank	465	-	(580)	(115)	718	-	(690)	28
Royal Bank of Canada	32	-	-	32	135	-	(130)	5

Collateral pledged on derivatives was zero.

In addition the Fund trades futures contracts through UBS. Fair value movements are offset by movements in the variation margin account which reduces the derivative counterparty exposure to nil.

### 17 Value at risk (VaR)

The market risk of the Fund's financial asset and liability positions is monitored by the Investment Adviser using VaR analysis. VaR analysis attempts to reflect the interdependencies between risk variables, unlike a traditional sensitivity analysis. VaR represents the potential losses from adverse changes in market factors for a specified time period and confidence level.

Model assumptions:

System

FIS Advanced Portfolio Technologies (APT)

VaR methodology:

variance covariance approach (with delta-adjustment)

Confidence level:

99%

Holding period:

1 month

Decay factor for exponential smoothing of historical market data:

nil

Historical observation period:

180 weeks

## Notes to the Financial Statements cont.

### 17 Value at risk (VaR) (continued)

	2018	2017
	%	%
Fund VaR:	7.61	8.30
Index VaR:	7.50	7.84

The VaR noted above indicates the VaR of the Fund's financial instruments, measured as the potential 1 month loss in value from adverse changes in equity prices, interest rates, inflation and foreign currency exchange rates, with a 99% confidence level.

In combination with a snapshot of the portfolio and benchmark constituents at a given point in time, the APT risk model uses 180 weeks of historic data to formulate a prediction of risk over a desired time period. In the case of VaR numbers, the risk model produces a 1-month prediction of 99% VaR. The decay factor for exponential smoothing of the historic market data refers to how the risk model uses more recent data in its historic data window compared to older data. Using a positive decay factor would mean that the risk model is placing more importance on more recent data than on older data in formulating its prediction of risk – this would result in the risk model being more short-term in nature, and increasingly geared to short-term recent events. The decay factor used in the APT risk model for calculating VaR numbers is nil. This means that each of the 180 weeks of historic data used by the risk model are treated with equal importance in the model's calculation of predicted risk. This means that the risk model's prediction of risk will be influenced by the average variances and covariances of portfolio and comparative index constituents over the past 3½ years.

#### Objectives and limitations of the VaR methodology

The APT model uses statistical factor techniques to measure the effects of these risk variables on the value of the Fund. The VaR model is designed to measure market risk in a normal market environment.

The use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies significantly on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the given distribution assumption. VaR may also be under- or over-estimated due to the assumption placed on risk factors and the relationship between such factors for specific instruments.

Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level. In practice, the actual trading results will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation. Market risk positions are also subject to regular stress tests to ensure that the Fund would withstand an extreme market event.



# Distribution Tables

Interim distribution for the period ended 31 December 2017

Group 1 : shares purchased prior to 1 October 2017

Group 2 : shares purchased 1 October 2017 to 31 December 2017

	Net Revenue	Equalisation	Distribution (paid/accumulated 28.02.18)	Distribution (paid/accumulated 28.02.17)
	31.12.17 pence per share	31.12.17 pence per share	31.12.17 pence per share	31.12.16 pence per share
B Accumulation				
Group 1	1.60000	-	1.60000	1.90000
Group 2	0.40974	1.19026	1.60000	1.90000
B Income				
Group 1	0.75000	-	0.75000	0.75000
Group 2	0.17269	0.57731	0.75000	0.75000
C Accumulation				
Group 1	1.80000	-	1.80000	2.00000
Group 2	1.56019	0.23981	1.80000	2.00000
C Income				
Group 1	0.80000	-	0.80000	0.80000
Group 2	0.80000	-	0.80000	0.80000

## Distribution Tables cont.

Interim distributions for the period ended 31 March 2018

Group 1 : shares purchased prior to 1 January 2018

Group 2 : shares purchased 1 January 2018 to 31 March 2018

	Net Revenue	Equalisation	Distribution (paid/accumulated 31.05.18)	Distribution (paid/accumulated 31.05.17)
	31.03.18 pence per share	31.03.18 pence per share	31.03.18 pence per share	31.03.17 pence per share
<b>B Accumulation</b>				
Group 1	1.60000	-	1.60000	1.90000
Group 2	0.08195	1.51805	1.60000	1.90000
<b>B Income</b>				
Group 1	0.75000	-	0.75000	0.75000
Group 2	-	0.75000	0.75000	0.75000
<b>C Accumulation</b>				
Group 1	1.80000	-	1.80000	2.00000
Group 2	0.19688	1.60312	1.80000	2.00000
<b>C Income</b>				
Group 1	0.80000	-	0.80000	0.80000
Group 2	0.80000	-	0.80000	0.80000

## Distribution Tables cont.

Interim distribution for the period ended 30 June 2018

Group 1 : share purchased prior to 1 April 2018

Group 2 : share purchased 1 April 2018 to 30 June 2018

	Net Revenue	Equalisation	Distribution (paid/accumulated 31.08.18)	Distribution (paid/accumulated 31.08.17)
	30.06.18 pence per share	30.06.18 pence per share	30.06.18 pence per share	30.06.17 pence per share
<b>B Accumulation</b>				
Group 1	1.60000	-	1.60000	1.90000
Group 2	-	1.60000	1.60000	1.90000
<b>B Income</b>				
Group 1	0.75000	-	0.75000	0.75000
Group 2	-	0.75000	0.75000	0.75000
<b>C Accumulation</b>				
Group 1	1.80000	-	1.80000	2.00000
Group 2	0.81820	0.98180	1.80000	2.00000
<b>C Income</b>				
Group 1	0.80000	-	0.80000	0.80000
Group 2	0.80000	-	0.80000	0.80000

## Distribution Tables cont.

Final distribution for the period ended 30 September 2018

Group 1 : shares purchased prior to 1 July 2018

Group 2 : shares purchased 1 July 2018 to 30 September 2018

	Net Revenue	Equalisation	Distribution (paid/accumulated 30.11.18)	Distribution (paid/accumulated 30.11.17)
	30.09.18 pence per share	30.09.18 pence per share	30.09.18 pence per share	30.09.17 pence per share
<b>B Accumulation</b>				
Group 1	3.63000	-	3.63000	2.70000
Group 2	1.32885	2.30115	3.63000	2.70000
<b>B Income</b>				
Group 1	1.86000	-	1.86000	1.78000
Group 2	0.53106	1.32894	1.86000	1.78000
<b>C Accumulation</b>				
Group 1	3.73000	-	3.73000	3.06000
Group 2	0.12813	3.60187	3.73000	3.06000
<b>C Income</b>				
Group 1	2.10000	-	2.10000	2.01000
Group 2	0.80891	1.29109	2.10000	2.01000



# BAILLIE GIFFORD

## Baillie Gifford Strategic Bond Fund

a sub-fund of Baillie Gifford Bond Funds ICVC

*Annual Report and Financial Statements  
for the year ended 30 September 2018*



# Baillie Gifford Strategic Bond Fund

## Investment Objective

The Fund's aim is to produce monthly income. Potential capital growth is also sought, subject to prevailing market conditions.

## Investment Policy

Investment will mainly be in investment grade and sub-investment grade bonds issued by companies worldwide and denominated in, or hedged back to, sterling. The Fund is actively managed through bond selection and strategic asset allocation. Derivatives, which are a type of financial contract, are used to protect or enhance the return of the Fund, including for investment purposes.

## 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 relevant material risks:

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 involves a risk of loss if the custodian becomes insolvent or breaches duties of care.

Bonds issued by companies and governments may be adversely affected by changes in interest rates, expectations of inflation and a decline in the creditworthiness of the bond issuer. The issuers of bonds in which the Fund invests may not be able to pay the bond income as promised or could fail to repay the capital amount.

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 result in the Fund being leveraged. This 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.

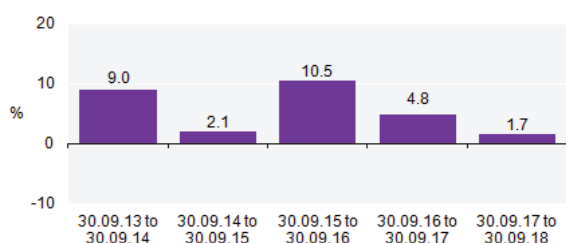
Market values for securities which are difficult to trade may not be readily available, and there can be no assurance that any value assigned to them will reflect the price the Fund might receive upon their sale.

The result of the UK Referendum on membership of the European Union introduces elements of political uncertainty and may have practical consequences for the Fund. Developments will be closely monitored.

Further details of the risks associated with investing in the Fund can be found in the Prospectus which is available by contacting Client Relations or visiting our website.

# Investment Report

## Past Performance<sup>1</sup>



The performance figures shown in this graph are for Class B Income Shares. Performance figures reflect the ACD's annual fee of 0.5%, but exclude any initial charge paid. Please note these returns differ from the returns quoted 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 contacting Client Relations. You should be aware that past performance is not a guide to future performance.

For the year to 30 September 2018 the return on B Income Shares was 1.6%<sup>2</sup>, compared to the return on the composite comparative index of 0.7%<sup>3</sup>, where the composite index is weighted 70% Bank of America Merrill Lynch Non-Gilts Index and 30% Bank of America Merrill Lynch European Currency High Yield Constrained Index on a sterling hedged basis.

The last year has been a tough market for bonds, with rising government and corporate bond yields. Following strong high yield bond's performance in 2017, the decision to reduce exposure to high yield bonds proved timely as the risk premium in this market has progressively risen through 2018. Beyond asset allocation, the key driver of the Fund's outperformance has been bond selection. Within the insurance sector the Fund's conviction positioning in non-rated bulk annuity providers Pension Insurance and Rothesay Life, generated positive returns when they received an investment grade rating. In addition, it was pleasing to see our positive bond buy-back thesis transpire for holdings in Old Mutual and Standard Life, a consequence of their respective corporate restructuring actions. Amongst industrials, the Fund's holding in Delamare bonds, those securitised on Tesco's supermarkets, bucked high yield trends as Tesco's operational recovery continues; one rating agency moving their credit rating back up to investment grade shortly after the period end.

Finally, Enquest, the UK North Sea focused oil producer, benefited from the completion of its major investment project, seeing a sharp appreciation in its bond price as a result.

Overall, in spite of market headwinds, the Fund's focus upon company fundamentals and lending to resilient businesses with solid or improving long-term balance sheets, has produced a positive through the cycle return.

Looking forward, whilst most leading macro-economic indicators are flashing green, we remain cognisant that the US is potentially late cycle and global asset prices per se are high. Thus, from an asset allocation perspective we are keeping some powder dry through purchases of shorter-dated high rated bonds, plus focusing the portfolio upon our best bond ideas. In spite of this defensive positioning, the Fund continues to deliver as the range of new bond ideas flowing from the team remains strong.

*Torcail Stewart and Lesley Dunn, 20 October 2018*

<sup>1</sup>Source: FE, 10am dealing prices, income reinvested, after charges. <sup>2</sup>Source: Baillie Gifford & Co Limited, closing mid prices, income reinvested, after charges. <sup>3</sup>Source: FE and relevant underlying index provider, total return. Please see Disclaimer on page 296. You should be aware that past performance is not a guide to future performance.



## Principal Bond Holdings as at 30 September 2018

Investment	Percentage of total Fund
Bertelsmann SE & Co 3.5% 2027/75	2.32
IBRD 1.375% 2020	2.28
Netflix 3.625 2027	2.15
Bank of America 7% 2028	2.12
Fidelity 2.5% 2026	2.08
Co-operative Group 6.25% 2026	1.97
Ziggo 4.625% 2025	1.91
KFW 6% 2028	1.87
Legal & General 5.375% 2025/45	1.85
Orange 5.75% 2023 Perp	1.82

## Material Portfolio Changes for the year ended 30 September 2018

Largest Purchases	Cost £'000	Largest Sales	Proceeds £'000
IBRD 1.375% 2020	14,348	Subsea 7 1% 2017 Convertible	12,951
DS Smith 2.875% 2029	11,403	Enel 5.625% 2024	9,666
National Grid 5.625% 2025/73	11,122	AT&T 3.55% 2037	8,787
Darling Ingredients 3.625% 2026	10,551	Old Mutual 7.875% 2025	8,262
Enel 5.75% 2040	10,314	Moy Park 6.25% 2021	7,681
Netflix 3.625 2027	10,221	EIB 5.375% 2021	7,013
Whitbread 3.375% 2025	8,904	Global Switch 4.375% 2022	6,575
Ubisoft 1.289% 2023	8,848	Hiscox 6.125% 2025/45	5,937
AT&T 3.55% 2037	8,625	Standard Chartered Bank 5.125% 2034	5,854
Pure Gym 6.375% 2025	8,549	Digital Realty Trust 4.25% 2025	5,584

The largest purchases and sales of bonds have been shown.

# Portfolio Statement as at 30 September 2018

Stock description	Holding	Market value £'000	% of total net assets
<b>Asset Backed - 2.15% (2.57%)</b>			
Greene King 4.0643% 2035	8,250,000	7,818	1.02
Lunar Funding 1 5.75% 2033	1,895,000	2,547	0.33
Mitchells & Butlers 5.574% 15/12/2030	4,140,000	2,039	0.27
Mitchells & Butlers 5.965% 15/12/2023	3,944,000	1,243	0.16
Mitchells & Butlers 6.469% 15/09/2030	2,470,000	2,797	0.37
<b>Banking - 6.53% (6.66%)</b>			
Bank of America 7% 2028	12,100,000	16,234	2.12
Citigroup 5.125% 2018	6,300,000	6,348	0.83
Citigroup 7.375% 2039	2,484,000	3,919	0.51
Citigroup 8.125% 2039	3,660,000	4,069	0.53
Sainsbury Bank 6% 2022/27	4,820,000	4,936	0.65
UBI 4.25% 2021/26	4,300,000	3,787	0.49
Unicredit 5.375% 2025 Perp	5,140,000	4,142	0.54
Unicredit 6.75% 2021 Perp	1,165,000	1,041	0.14
Yorkshire Building Society 3.375% 2027/28	5,910,000	5,506	0.72
<b>Capital Goods - 2.40% (1.31%)</b>			
DS Smith 2.875% 2029	11,590,000	11,067	1.45
Fortive Corporation 4.3% 2046	10,000,000	7,297	0.95
<b>Commercial Mortgage Backed - 6.05% (6.19%)</b>			
BBC White City Property 5.1202% 2035	7,860,000	8,634	1.13
Delamare (B-1) 6.067% 2029	2,520,000	2,841	0.37
Delamare 5.5457% 2029	10,720,000	10,585	1.38
Telereal (B-4) 6.1645% 2031	12,227,000	13,672	1.79
Telereal (C1) 3.50875% 2031 <sup>1</sup>	8,600,000	8,385	1.09
Telereal 4.0902% 2021/31 (B2)	2,126,000	2,207	0.29
<b>Consumer Cyclical - 2.48% (2.41%)</b>			
J Sainsbury 6.5% 2020 Perp	11,000,000	11,680	1.53
John Lewis 4.25% 2034	4,123,000	3,782	0.49
Liberty Interactive 4% 2029 Convertible	6,600,000	3,505	0.46

## Portfolio Statement as at 30 September 2018 cont.

Stock description	Holding	Market value £'000	% of total net assets
<b>Consumer Goods - 1.57% (3.10%)</b>			
Brown-Forman 2.6% 2028	11,992,000	11,948	1.56
Virgolino De Oliveira 11.75% 2022	2,485,000	95	0.01
<b>Consumer Non-Cyclical - 0.51% (0.55%)</b>			
Marfrig 6.875% 2019	5,000,000	3,878	0.51
<b>Energy - 0.68% (1.84%)</b>			
Enquest 7% 2022 PIK (USD) (144A)	7,051,500	5,177	0.68
<b>Financial Services - 4.52% (3.78%)</b>			
Close Brothers 2.75% 2023	5,000,000	4,975	0.65
Fidelity 2.5% 2026	17,850,000	15,891	2.08
Motability 3.625% 2036	4,660,000	5,173	0.68
Softbank 5% 2028	9,590,000	8,539	1.11
<b>Government Guaranteed - 1.87% (0.95%)</b>			
KFW 6% 2028	10,285,000	14,284	1.87
<b>Health Care - 3.17% (3.52%)</b>			
IMS Health 3.25% 2025	13,600,000	12,326	1.61
Johnson & Johnson 5.5% 2024	3,700,000	4,498	0.59
Mednax 5.25% 2023 (144A)	9,650,000	7,436	0.97
<b>Insurance - 14.27% (17.96%)</b>			
Admiral Group 5.5% 2024	9,690,000	10,497	1.37
Brit Insurance 6.625% 2030	8,900,000	9,099	1.19
BUPA 6.125% 2020 Perp	11,100,000	11,751	1.54
Fairfax Financial Holdings 5.84% 2022	12,161,000	7,827	1.02
Legal & General 5.375% 2025/45	13,400,000	14,185	1.85
MetLife 3.5% 2026	7,700,000	8,399	1.10
Pension Insurance 5.625% 2030	4,000,000	3,850	0.50
Pension Insurance 6.5% 2024	11,000,000	11,904	1.56
Phoenix Life 7.25% 2021 Perp	8,454,000	8,965	1.17
Rothsay Life 8% 2025	10,180,000	12,171	1.59

## Portfolio Statement as at 30 September 2018 cont.

Stock description	Holding	Market value £'000	% of total net assets
Standard Life 6.75% 2027 Perp	7,900,000	10,573	1.38
<b>Leisure - 5.05% (1.78%)</b>			
Cirsa 6.25% 2023	5,850,000	5,389	0.71
International Game Technology 3.5% 2024	8,300,000	7,454	0.97
Pure Gym 6.375% 2025	8,400,000	8,641	1.13
Travelodge 8.5% 2023	10,070,000	8,572	1.12
Whitbread 3.375% 2025	8,450,000	8,573	1.12
<b>Media - 8.64% (8.39%)</b>			
Bertelsmann SE & Co 3.5% 2027/75	20,400,000	17,776	2.32
Daily Mail & General Trust 6.375% 2027	5,900,000	6,703	0.88
Naspers 4.85% 2027	7,000,000	5,274	0.69
Netflix 3.625 2027	18,700,000	16,423	2.15
Time Warner Cable 5.75% 2031	1,500,000	1,705	0.22
Time Warner Cable Inc 5.25% 2042	3,330,000	3,631	0.47
Ziggo 4.625% 2025	16,600,000	14,641	1.91
<b>Real Estate - 4.73% (5.83%)</b>			
Annington Funding 3.184% 2029	7,816,000	7,714	1.01
Digital Realty Trust 4.25% 2025	5,905,000	6,356	0.83
Pinewood 3.75% 2023	6,600,000	6,597	0.86
Vonovia 4% Perpetual	7,700,000	7,282	0.95
Vonovia 4.625% 2019/74	9,100,000	8,257	1.08
<b>Retail - 6.31% (3.77%)</b>			
Co-operative Group 6.25% 2026	12,800,000	15,104	1.97
First Cash 5.375% 2024 (144A)	7,370,000	5,679	0.74
Lycra 5.375% 2023	8,400,000	7,295	0.96
Sally 5.625% 2025	18,420,000	13,564	1.77
Wagamama Group 4.125% 2022	6,800,000	6,654	0.87
<b>Services - 2.77% (2.01%)</b>			
Darling Ingredients 3.625% 2026	11,850,000	10,847	1.42
University of Cambridge 2.35% 2078	1,550,000	1,420	0.18
University of Cambridge 3.75% 2052	7,000,000	8,954	1.17

## Portfolio Statement as at 30 September 2018 cont.

Stock description	Holding	Market value £'000	% of total net assets
<b>Sovereign - 0.31% (0.00%)</b>			
Mexico 5.625% 19/03/2114 (GBP)	2,320,000	2,383	0.31
<b>Supranational - 4.42% (3.96%)</b>			
EIB 5.375% 2021	5,300,000	5,891	0.77
EIB 6% 2028	7,620,000	10,517	1.37
IBRD 1.375% 2020	17,370,000	17,474	2.28
<b>Technology &amp; Electronics - 2.63% (0.95%)</b>			
Booking Holdings 3.55% 2028	10,000,000	7,355	0.96
Match.com 5% 2027 144A	5,000,000	3,815	0.50
Ubisoft 1.289% 2023	10,100,000	8,973	1.17
<b>Telecommunications - 7.62% (10.07%)</b>			
Arqiva Group 6.75% 2023	5,362,000	5,490	0.72
AT&T 7% 2040	2,750,000	3,914	0.51
Bell Canada 4.75% 2044	13,960,000	8,546	1.12
Equinix 2.875% 2025	9,311,000	8,175	1.07
Equinix 2.875% 2026	3,300,000	2,892	0.38
Global Switch 2.25% 2027	6,500,000	5,788	0.75
Inmarsat 4.875% 2022 (144A)	7,230,000	5,516	0.72
Orange 5.75% 2023 Perp	12,990,000	13,955	1.82
Vodafone 3% 2056	4,900,000	4,098	0.53
<b>Transportation - 0.70% (0.81%)</b>			
DP World 6.85% 2037	6,100,000	5,357	0.70
<b>Utilities - 6.59% (7.06%)</b>			
EDF 6% 2026 Perp	7,200,000	7,355	0.96
EDF 6% 2114	4,000,000	5,129	0.67
Enel 5.75% 2040	7,400,000	9,244	1.21
Enel 6.625% 2021/76	6,930,000	7,484	0.98
National Grid 5.625% 2025/73	10,020,000	10,960	1.43
Solarcity 1.625% 2019 Convertible	12,505,000	8,390	1.10
Wales and West Utilities 6.75% 2018/36	1,842,000	1,860	0.24

## Portfolio Statement as at 30 September 2018 cont.

Stock description	Holding	Market value £'000	% of total net assets
<b>Derivatives - 0.44% (1.11%)</b>			
Forward currency contracts (see Table 1)		3,397	0.44
Futures contracts (see Table 2)		-	0.00
Portfolio of investments		737,985	96.41
<b>Net other assets - 3.59% (3.42%)</b>		<b>27,504</b>	<b>3.59</b>
<b>Net assets</b>		<b>765,489</b>	<b>100.00</b>

<sup>1</sup>This stock has been valued using a single broker quote.

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

Unless otherwise stated the above holdings are in fixed interest securities.

Figures in brackets in the investment category headings refer to 30 September 2017.

**Table 1: Unrealised gains/(losses) on open forward currency contracts**

Counterparty	Settlement	Buy	Buy Amount	Sell	Sell Amount	Unrealised gains/(losses) £'000	% of total net assets
HSBC	15/11/18	GBP	171,641,626	EUR	190,810,000	1,405	0.18
Royal Bank of Canada	15/11/18	GBP	17,608,278	CAD	29,430,000	169	0.02
Royal Bank of Scotland	15/11/18	GBP	90,058,161	USD	115,310,000	1,823	0.24
Unrealised gains/(losses) on open forward currency contracts						3,397	0.44

## Portfolio Statement as at 30 September 2018 cont.

**Table 2: Unrealised gains/(losses) on futures contracts**

Futures	Maturity	Notional	Unrealised gains/(losses) £'000	% of total net assets
Canada 10 Year Bond Future December 2018	31/12/18	(226)	-	0.00
Euro-Bobl Future December 2018	10/12/18	(101)	-	0.00
Euro-Bund Future December 2018	10/12/18	(140)	-	0.00
Long Gilt Future 10 Year December 2018	31/12/18	837	-	0.00
US 5 Year Note December 2018	04/01/19	12	-	0.00
US Long Bond (CBT) December 2018	31/12/18	(72)	-	0.00
US Ultra 10 Year Note Future December 2018	31/12/18	(368)	-	0.00
US Ultra Long (CBT) December 2018	31/12/18	(12)	-	0.00
Unrealised gains/(losses) on futures contracts			-	0.00



# Comparative Tables

## Comparative Table: A Accumulation Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	196.07	186.68	170.16
Return before operating charges*	4.20	11.84	19.60
Operating charges	(2.04)	(1.95)	(1.80)
Return after operating charges*	2.16	9.89	17.80
Distributions	(5.89)	(6.29)	(6.38)
Retained distributions on accumulation shares	5.89	5.79	5.10
<b>Closing net asset value per share</b>	<b>198.23</b>	<b>196.07</b>	<b>186.68</b>
*After direct transaction costs of:	0.00	0.00	0.01
<b>Performance:</b>			
Return after charges	1.10%	5.03%	9.71%
<b>Other Information:</b>			
Closing net asset value (£'000)	14,764	16,691	19,432
Closing number of shares	7,447,948	8,512,882	10,409,010
Operating charges	1.02%	1.02%	1.03%
Direct transaction costs <sup>1</sup>	0.00%	0.00%	0.01%
<b>Prices:</b>			
Highest share price (pence)	202.4	199.9	190.0
Lowest share price (pence)	197.2	181.5	165.9

## Comparative Tables cont.

### Comparative Table: A Income Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	82.66	81.11	76.08
Return before operating charges*	1.77	5.10	8.66
Operating charges	(0.85)	(0.84)	(0.80)
Return after operating charges*	0.92	4.26	7.86
Distributions on income shares	(2.46)	(2.71)	(2.83)
<b>Closing net asset value per share</b>	<b>81.12</b>	<b>82.66</b>	<b>81.11</b>
*After direct transaction costs of:			
	0.00	0.00	0.00
<b>Performance:</b>			
Return after charges	1.11%	5.02%	9.58%
<b>Other Information:</b>			
Closing net asset value (£'000)	6,492	7,856	10,155
Closing number of shares	8,002,443	9,503,128	12,519,602
Operating charges	1.02%	1.02%	1.03%
Direct transaction costs <sup>1</sup>	0.00%	0.00%	0.01%
<b>Prices:</b>			
Highest share price (pence)	84.88	85.16	83.23
Lowest share price (pence)	82.17	78.71	73.62

## Comparative Tables cont.

### Comparative Table: B Accumulation Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	209.82	198.87	180.54
Return before operating charges*	4.48	12.65	20.86
Operating charges	(1.11)	(1.07)	(0.99)
Return after operating charges*	3.37	11.58	19.87
Distributions	(7.39)	(7.73)	(7.71)
Retained distributions on accumulation shares	7.39	7.10	6.17
<b>Closing net asset value per share</b>	<b>213.19</b>	<b>209.82</b>	<b>198.87</b>
*After direct transaction costs of:	0.00	0.00	0.01
<b>Performance:</b>			
Return after charges	1.61%	5.51%	10.15%
<b>Other Information:</b>			
Closing net asset value (£'000)	449,076	361,171	280,815
Closing number of shares	210,645,112	172,132,348	141,202,632
Operating charges	0.52%	0.52%	0.53%
Direct transaction costs <sup>1</sup>	0.00%	0.00%	0.01%
<b>Prices:</b>			
Highest share price (pence)	216.9	213.9	202.4
Lowest share price (pence)	211.1	193.5	176.3

## Comparative Tables cont.

### Comparative Table: B Income Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	87.36	85.72	80.42
Return before operating charges*	1.87	5.38	9.13
Operating charges	(0.46)	(0.45)	(0.44)
Return after operating charges*	1.41	4.93	8.69
Distributions on income shares	(3.04)	(3.29)	(3.39)
<b>Closing net asset value per share</b>	<b>85.73</b>	<b>87.36</b>	<b>85.72</b>
 *After direct transaction costs of:	 0.00	 0.00	 0.00
<b>Performance:</b>			
Return after charges	1.61%	5.46%	9.96%
<b>Other Information:</b>			
Closing net asset value (£'000)	294,394	285,153	226,372
Closing number of shares	343,389,581	326,403,493	264,070,381
Operating charges	0.52%	0.52%	0.53%
Direct transaction costs <sup>1</sup>	0.00%	0.00%	0.01%
<b>Prices:</b>			
Highest share price (pence)	89.70	89.90	87.84
Lowest share price (pence)	86.80	83.20	77.77

## Comparative Tables cont.

### Comparative Table: C Accumulation Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	238.79	224.50	201.13
Return before operating charges*	5.12	14.36	23.43
Operating charges	(0.07)	(0.07)	(0.06)
Return after operating charges*	5.05	14.29	23.37
Distributions	(9.64)	(9.92)	(9.70)
Retained distributions on accumulation shares	9.64	9.92	9.70
<b>Closing net asset value per share</b>	<b>243.84</b>	<b>238.79</b>	<b>224.50</b>
*After direct transaction costs of:	0.00	0.00	0.01
<b>Performance:</b>			
Return after charges	2.11%	6.37%	11.62%
<b>Other Information:</b>			
Closing net asset value (£'000)	2	2	3
Closing number of shares	1,000	1,000	1,000
Operating charges	0.03%	0.03%	0.03%
Direct transaction costs <sup>1</sup>	0.00%	0.00%	0.01%
<b>Prices:</b>			
Highest share price (pence)	247.2	243.3	228.3
Lowest share price (pence)	240.2	218.8	197.5

## Comparative Tables cont.

### Comparative Table: C Income Shares

	Financial Year Ended 30 September 2018 (pence per share)	Financial Year Ended 30 September 2017 (pence per share)	Financial Year Ended 30 September 2016 (pence per share)
<b>Change in net assets per share:</b>			
Opening net asset value per share	91.80	90.08	84.51
Return before operating charges*	1.96	5.66	9.59
Operating charges	(0.03)	(0.03)	(0.03)
Return after operating charges*	1.93	5.63	9.56
Distributions on income shares	(3.64)	(3.91)	(3.99)
<b>Closing net asset value per share</b>	<b>90.09</b>	<b>91.80</b>	<b>90.08</b>
 *After direct transaction costs of:	 0.00	 0.00	 0.00
<b>Performance:</b>			
Return after charges	2.10%	5.91%	10.36%
<b>Other Information:</b>			
Closing net asset value (£'000)	761	23,198	21,006
Closing number of shares	844,994	25,270,805	23,318,728
Operating charges	0.03%	0.03%	0.03%
Direct transaction costs <sup>1</sup>	0.00%	0.00%	0.01%
<b>Prices:</b>			
Highest share price (pence)	94.27	94.40	92.21
Lowest share price (pence)	91.20	87.44	81.70

<sup>1</sup>The Fund incurs broker commission and transfer taxes/stamp duty as a necessary part of buying and selling the Fund's underlying investments in order to achieve the investment objective. In the case of shares; broker commissions, transfer taxes and stamp duty may be paid by the Fund on transactions. Commission is also payable to the counterparty on the trading of futures contracts.

A dilution adjustment is made whenever dealings in the shares of the Fund result in shares being issued or cancelled by the Company. The adjustment will take account of any spread between the buying and selling prices of the Fund's investments and the costs (which may include dealing charges and taxes) of acquiring or disposing of such investments. Please note that the direct transaction cost disclosures above do not include the dilution adjustment charges. For further details on dilution adjustment charges please see the General Information section. Please note that with effect from 1 May 2018 the investment objective and policy of the Fund were amended.

# Financial Statements

## Statement of Total Return for the year ended 30 September 2018

		2018		2017	
	Notes	£'000	£'000	£'000	£'000
Income					
Net capital gains/(losses)	1		(14,968)		10,794
Revenue	3	29,042		26,516	
Expenses	4	(3,825)		(3,241)	
Net revenue before taxation		25,217		23,275	
Taxation	5	-		-	
Net revenue after taxation			25,217		23,275
Total return before distributions			10,249		34,069
Distributions	6		(25,219)		(23,277)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>(14,970)</b>		<b>10,792</b>

## Statement of Change in Net Assets Attributable to Shareholders for the year ended 30 September 2018

	2018		2017	
	£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>		<b>694,071</b>		<b>557,783</b>
Amounts receivable on issue of shares	156,334		154,245	
Amounts payable on cancellation of shares	(85,350)		(40,902)	
		70,984		113,343
Dilution adjustment		487		521
Change in net assets attributable to shareholders from investment activities		(14,970)		10,792
Retained distributions on accumulation shares		14,917		11,632
<b>Closing net assets attributable to shareholders</b>		<b>765,489</b>		<b>694,071</b>

## Financial Statements cont.

### Balance Sheet as at 30 September 2018

	Notes	2018 £'000	2017 £'000
<b>Assets:</b>			
Fixed assets:			
Investments	13	737,985	670,352
Current assets:			
Debtors	8	12,992	13,867
Cash and bank balances	9	28,998	24,086
<b>Total assets</b>		<b>779,975</b>	<b>708,305</b>
<b>Liabilities:</b>			
Creditors:			
Bank overdrafts	9	(1,457)	(2,015)
Distributions payable		(2,957)	(3,039)
Other creditors	10	(10,072)	(9,180)
<b>Total liabilities</b>		<b>(14,486)</b>	<b>(14,234)</b>
<b>Net assets attributable to shareholders</b>		<b>765,489</b>	<b>694,071</b>



# Notes to the Financial Statements

## 1 Net capital gains/(losses)

	2018	2017
	£'000	£'000
Non-derivative securities	(13,387)	11,735
Derivative contracts	1,806	1,153
Forward currency contracts	(3,467)	(1,862)
Currency gains/(losses)	82	(230)
Transaction costs	(2)	(2)
<b>Net capital gains/(losses)</b>	<b>(14,968)</b>	<b>10,794</b>

## 2 Purchases, sales and transaction costs

	2018	2017
	£'000	£'000
<b>Purchases and transaction costs</b>		
Gross purchases of bonds excluding transaction costs <sup>1</sup>	273,197	334,029
<b>Purchases including transaction costs</b>	<b>273,197</b>	<b>334,029</b>

<sup>1</sup>There were no transaction costs on the purchase of bonds.

	2018	2017
	£'000	£'000
<b>Sales and transaction costs</b>		
Gross sales of bonds excluding transaction costs <sup>1</sup>	184,651	227,946
<b>Sales net of transaction costs</b>	<b>184,651</b>	<b>227,946</b>

<sup>1</sup>There were no transaction costs on the sale of bonds.

	2018	2017
	£'000	£'000
<b>Transaction cost on derivative contracts</b>		
Commission on trading futures contracts	27	27

## Notes to the Financial Statements cont.

### 2 Purchases, sales and transaction costs (continued)

	2018		2017	
	£'000	% of average NAV	£'000	% of average NAV
<b>Portfolio transaction costs</b>				
Commissions	27	0.00	27	0.01
Taxes	-	0.00	-	0.00
<b>Total direct transaction costs</b>	<b>27</b>	<b>0.00</b>	<b>27</b>	<b>0.01</b>

	2018	2017
	%	%
Average portfolio dealing spread	0.67	0.71

The Fund incurs broker commission and transfer taxes/stamp duty as a necessary part of buying and selling the Fund's underlying investments in order to achieve the investment objective. Commission is also payable to the counterparty on the trading of futures contracts.

Dilution adjustment charges, which do not form part of the direct transaction costs disclosures above, may be incurred as a result of trading in underlying funds. For further details on dilution adjustment charges please see the General Information section.

Dealing spread is the difference in the buying and selling prices of the underlying investments. Dealing spreads vary considerably depending on the transaction value and market sentiment. The Fund may have holdings in single priced funds. The notional spread on these holdings is not included in the average dealing spread calculated for this Fund.

### 3 Revenue

	2018	2017
	£'000	£'000
Interest on debt securities	29,000	26,092
Bank interest	42	64
Other income	-	360
<b>Total revenue</b>	<b>29,042</b>	<b>26,516</b>

## Notes to the Financial Statements cont.

### 4 Expenses

	2018	2017
	£'000	£'000
<b>Payable to the ACD, associates of the ACD and agents of either of them:</b>		
ACD's periodic charge	3,661	3,102
<b>Payable to the Depositary, associates of the Depositary and agents of either of them:</b>		
Depositary's fee	85	69
Bank charges	72	62
	157	131
<b>Other expenses:</b>		
Audit fee	7	8
<b>Total expenses</b>	<b>3,825</b>	<b>3,241</b>

### 5 Taxation

	2018	2017
	£'000	£'000
<b>Analysis of charge in the year</b>		
Corporation tax	-	-
<b>Total taxation</b>	<b>-</b>	<b>-</b>

The Fund is subject to corporation tax at 20% (2017: 20%), however, the Fund is a bond fund making interest distributions and the interest distributions made by the Fund are allowable in arriving at the amount of revenue liable to tax. As a result, this has reduced the corporation tax liability of the Fund to nil.

The deduction of the interest distribution has been restricted to reflect the priority utilisation of the management expenses incurred by the Fund in the year, as per regulation 13(1A) of SI 2006/964. This results in no excess management expenses or interest distribution being carried forward.

The tax charge is explained as follows:

	2018	2017
	£'000	£'000
Net revenue/(expense) before taxation	25,217	23,275
Net revenue before taxation multiplied by the standard rate of corporation tax of 20% (2017: 20%)	5,043	4,655
Effects of:		
Interest distributions	(5,043)	(4,655)
<b>Total taxation</b>	<b>-</b>	<b>-</b>

## Notes to the Financial Statements cont.

### 6 Distributions

	2018	2017
	£'000	£'000
Interim to 31 October	1,655	1,714
Interim to 30 November	1,664	1,714
Interim to 31 December	1,666	1,731
Interim to 31 January	1,694	1,779
Interim to 28 February	1,685	1,788
Interim to 31 March	1,663	1,450
Interim to 30 April	1,667	1,471
Interim to 31 May	1,686	1,519
Interim to 30 June	1,701	1,550
Interim to 31 July	1,712	1,572
Interim to 31 August	1,753	1,596
Final to 30 September	7,049	5,912
	<b>25,595</b>	<b>23,796</b>
Amounts deducted on cancellation of shares	473	157
Amounts added on issue of shares	(849)	(676)
<b>Total distributions</b>	<b>25,219</b>	<b>23,277</b>

The distributions take account of revenue transactions on the issue and cancellation of shares. Details of the distributions per share are set out in the Distribution Tables.

### 7 Reconciliation of net revenue to net distributions for the year

	2018	2017
	£'000	£'000
Net revenue after taxation for the year	25,217	23,275
Add distributable revenue brought forward	11	13
Less distributable revenue carried forward	(9)	(11)
<b>Net distributions for the year</b>	<b>25,219</b>	<b>23,277</b>

### 8 Debtors

	2018	2017
	£'000	£'000
Receivable for issue of shares	1,412	2,764
Sales awaiting settlement	-	384
Accrued income	11,567	10,718
Collateral held by counterparties	5	-
Other debtors	8	1
<b>Total debtors</b>	<b>12,992</b>	<b>13,867</b>

## Notes to the Financial Statements cont.

### 9 Cash and bank balances

	2018	2017
	£'000	£'000
Sterling amounts held at clearing houses and brokers	1,845	2,109
Foreign amounts held at clearing houses and brokers	1,122	1,303
Sterling bank accounts	26,031	19,992
Foreign currency bank accounts	-	682
	28,998	24,086
Sterling bank accounts overdrawn	(1,457)	(2,015)
<b>Total cash and bank balances</b>	<b>27,541</b>	<b>22,071</b>

### 10 Other creditors

	2018	2017
	£'000	£'000
Payable for cancellation of shares	86	29
Purchases awaiting settlement	5,404	696
Due to the ACD or associates	302	277
Due to the Depositary or associates	23	24
Collateral held on behalf of counterparty	4,250	8,145
Other accrued expenses	7	9
<b>Total other creditors</b>	<b>10,072</b>	<b>9,180</b>

### 11 Related party transactions

Baillie Gifford & Co Limited, as ACD, is regarded as a related party by virtue of the services provided to the Company. Baillie Gifford & Co Limited acts as principal in respect of all transactions of shares in the Company, except where stocks are transferred on the issue or cancellation of shares. The aggregate monies received through issue and paid on cancellation are disclosed in the Statement of Change in Net Assets Attributable to Shareholders. Amounts receivable and payable on the issue and cancellation of shares have been disclosed in notes 8 and 10 respectively.

Amounts paid to Baillie Gifford & Co Limited in respect of ACD fees are disclosed in note 4 with amounts due at the year end given in note 10.

#### Shares held by the ACD and associates of the ACD

The shares held by the ACD and associates of the ACD as a percentage of the Fund's NAV were:

	2018	2017
	%	%
ACD and associates of the ACD	0.00	0.00

## Notes to the Financial Statements cont.

### 12 Reconciliation of shares in issue

	2018					
	A Accumulation Shares	A Income Shares	B Accumulation Shares	B Income Shares	C Accumulation Shares	C Income Shares
Opening shares in issue	8,512,882	9,503,128	172,132,348	326,403,493	1,000	25,270,805
Shares issued	665,396	872,202	43,180,620	65,511,331	1,000	5,869,122
Shares cancelled	(1,596,076)	(1,491,385)	(4,796,117)	(49,350,730)	(1,000)	(30,294,933)
Shares converted	(134,254)	(881,502)	128,261	825,487	-	-
<b>Closing shares in issue</b>	<b>7,447,948</b>	<b>8,002,443</b>	<b>210,645,112</b>	<b>343,389,581</b>	<b>1,000</b>	<b>844,994</b>

### 13 Basis of valuation

	2018		2017	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Level 1: Quoted prices	-	-	-	-
Level 2: Observable market data	729,600	-	665,116	-
Level 3: Unobservable data <sup>1</sup>	8,385	-	5,236	-
<b>Total</b>	<b>737,985</b>	<b>-</b>	<b>670,352</b>	<b>-</b>

<sup>1</sup>For further information on the assets included in Level 3, as at 30 September 2018, please refer to the Portfolio Statement.

### 14 Credit ratings

Rating Block	2018		2017	
	Market value £'000	Percentage of total Fund	Market value £'000	Percentage of total Fund
Investment Grade	474,882	62.04	432,307	62.29
High Yield	259,706	33.93	230,232	33.17
Unrated	-	-	102	0.01
<b>Total Bonds - Direct</b>	<b>734,588</b>	<b>95.97</b>	<b>662,640</b>	<b>95.47</b>
Other	30,901	4.03	31,430	4.53
<b>Net Assets</b>	<b>765,489</b>	<b>100.00</b>	<b>694,071</b>	<b>100.00</b>

## Notes to the Financial Statements cont.

### 15 Derivatives and other financial instruments

#### Currency exposures

A proportion of the net assets of the Fund are denominated in currencies other than sterling, with the effect that the balance sheet and total return can be significantly affected by currency movements.

Currency	Net foreign currency assets/(liabilities)			Net foreign currency assets/(liabilities)		
	2018			2017		
	Monetary exposures £'000	Non-monetary exposures £'000	Total £'000	Monetary exposures £'000	Non-monetary exposures £'000	Total £'000
Canadian dollar	283	(1,066)	(782)	318	(936)	(618)
Euro	266	(3,318)	(3,052)	386	(5,507)	(5,121)
Swiss franc	-	-	-	-	201	201
UK sterling	22,174	744,195	766,369	11,942	679,088	691,030
US dollar	573	(1,827)	(1,253)	1,281	(2,494)	(1,213)

Short term debtors and creditors have not been disclosed.

#### Interest rate risk profile of financial assets and financial liabilities

The interest rate risk profile of the Fund was:

Currency	2018				2017			
	Floating Rate financial assets £'000	Fixed Rate financial assets £'000	Financial assets not carrying interest £'000	Total £'000	Floating Rate financial assets £'000	Fixed Rate financial assets £'000	Financial assets not carrying interest £'000	Total £'000
Canadian dollar	283	16,373	-	16,657	318	16,583	-	16,901
Euro	266	166,919	-	167,185	386	137,146	-	137,532
Swiss franc	-	-	-	-	-	2,323	-	2,323
UK sterling	36,266	456,502	279,308	772,076	27,338	412,283	261,568	701,189
US dollar	573	86,408	-	86,982	1,281	89,068	-	90,349

Currency	2018				2017			
	Floating Rate financial liabilities £'000	Fixed Rate financial liabilities £'000	Financial liabilities not carrying interest £'000	Total £'000	Floating Rate financial liabilities £'000	Fixed Rate financial liabilities £'000	Financial liabilities not carrying interest £'000	Total £'000
Canadian dollar	-	-	17,439	17,439	-	-	17,520	17,520
Euro	-	-	170,237	170,237	-	-	142,653	142,653
Swiss franc	-	-	-	-	-	-	2,122	2,122
UK sterling	5,707	-	-	5,707	10,160	-	-	10,160
US dollar	-	-	88,235	88,235	-	-	91,562	91,562

## Notes to the Financial Statements cont.

### 15 Derivatives and other financial instruments (continued)

#### Fixed rate financial assets

	2018	2017
The weighted average interest rate of the fixed rate financial assets is:		
Canadian dollar denominated	4.05%	4.06%
Euro denominated	3.39%	2.64%
Swiss franc denominated	n/a	1.57%
UK sterling denominated	3.53%	3.27%
US dollar denominated	6.62%	7.38%
The weighted average maturity of the fixed rate financial assets is:		
Canadian dollar denominated	15.50 years	16.32 years
Euro denominated	14.56 years	18.35 years
Swiss franc denominated	n/a	4.59 years
UK sterling denominated	13.54 years	14.06 years
US dollar denominated	9.20 years	6.20 years

In addition the Fund may hold floating rate financial assets that comprise floating rate notes, index-linked government bonds, bank balances, collateral balances, the receive legs of interest rate swaps and the receive legs of inflation rate swaps, the returns on which are uncertain. The return on floating rate notes is dependent on certain factors which may include future interest rates, specific bond terms and price indices over the remaining life of the bonds. The return on index-linked bonds is dependent on changes in respective national price indices over the remaining life of the bonds. Bank balances bear interest at rates based on LIBOR or the foreign currency equivalent. Collateral held on the Fund's behalf by counterparties bears interest based on LIBOR or the foreign currency equivalent. The return on floating rate legs of interest rate swaps is dependent on the specific base rate against which the swap has been taken. The return on floating rate legs of inflation rate swaps is dependent on future inflation rates over the remaining life of the swaps.

#### Financial liabilities

The Fund may hold floating rate financial liabilities that comprise overdrawn bank balances, collateral balances, the pay legs of interest rate swaps and the pay legs of inflation rate swaps, the payments on which are uncertain. Overdrawn bank balances pay interest at rates based on LIBOR or the foreign currency equivalent. Collateral held on behalf of counterparties pay interest based on LIBOR or the foreign currency equivalent. The payment on floating rate legs of interest rate swaps is dependent on the specific base rate against which the swap has been taken. The payment on floating rate legs of inflation rate swaps is dependent on future inflation rates over the remaining life of the swap.



## Notes to the Financial Statements cont.

### 16 Derivative Exposure

The exposure to derivative counterparties was:

Counterparty	2018			2017		
	Forward	Cash	Total	Forward	Cash	Total
	currency contracts £'000	collateral held £'000	exposure £'000	currency contracts £'000	collateral held £'000	exposure £'000
HSBC	1,405	(1,210)	195	4,584	(5,240)	(656)
JP Morgan Chase	-	-	-	77	(110)	(33)
Royal Bank of Canada	169	(405)	(236)	291	(130)	161
Royal Bank of Scotland	1,823	(2,635)	(812)	2,759	(2,665)	94

Collateral pledged on derivatives was:

Counterparty	2018			2017		
	Cash	Bonds	Total	Cash	Bonds	Total
	£'000	£'000	£'000	£'000	£'000	£'000
JP Morgan Chase	5	-	5	-	-	-

In addition the Fund trades futures contracts through UBS. Fair value movements are offset by movements in the variation margin account which reduces the derivative counterparty exposure to nil.

### 17 Value at risk (VaR)

The market risk of the Fund's financial asset and liability positions is monitored by the Investment Adviser using VaR analysis. VaR analysis attempts to reflect the interdependencies between risk variables, unlike a traditional sensitivity analysis. VaR represents the potential losses from adverse changes in market factors for a specified time period and confidence level.

Model assumptions:

System	FIS Advanced Portfolio Technologies (APT)
VaR methodology:	variance covariance approach (with delta-adjustment)
Confidence level:	99%
Holding period:	1 month
Decay factor for exponential smoothing of historical market data:	nil
Historical observation period:	180 weeks

	2018	2017
	%	%
Fund VaR:	3.63	4.81
Index VaR:	3.49	3.85

The VaR noted above indicates the VaR of the Fund's financial instruments, measured as the potential 1 month loss in value from adverse changes in equity prices, interest rates, inflation and foreign currency exchange rates, with a 99% confidence level.

## Notes to the Financial Statements cont.

### 17 Value at risk (VaR) (continued)

In combination with a snapshot of the portfolio and benchmark constituents at a given point in time, the APT risk model uses 180 weeks of historic data to formulate a prediction of risk over a desired time period. In the case of VaR numbers, the risk model produces a 1-month prediction of 99% VaR. The decay factor for exponential smoothing of the historic market data refers to how the risk model uses more recent data in its historic data window compared to older data. Using a positive decay factor would mean that the risk model is placing more importance on more recent data than on older data in formulating its prediction of risk – this would result in the risk model being more short-term in nature, and increasingly geared to short-term recent events. The decay factor used in the APT risk model for calculating VaR numbers is nil. This means that each of the 180 weeks of historic data used by the risk model are treated with equal importance in the model's calculation of predicted risk. This means that the risk model's prediction of risk will be influenced by the average variances and covariances of portfolio and comparative index constituents over the past 3½ years.

#### **Objectives and limitations of the VaR methodology**

The APT model uses statistical factor techniques to measure the effects of these risk variables on the value of the Fund. The VaR model is designed to measure market risk in a normal market environment.

The use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies significantly on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the given distribution assumption. VaR may also be under- or over-estimated due to the assumption placed on risk factors and the relationship between such factors for specific instruments.

Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level. In practice, the actual trading results will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation. Market risk positions are also subject to regular stress tests to ensure that the Fund would withstand an extreme market event.

# Distribution Table

Interim distribution for the period ended 31 October 2017

Group 1 : shares purchased prior to 1 October 2017

Group 2 : shares purchased 1 October 2017 to 31 October 2017

	Net Revenue	Equalisation	Distribution (paid/accumulated 29.11.17)	Distribution (paid/accumulated 29.11.16)
	31.10.17 pence per share	31.10.17 pence per share	31.10.17 pence per share	31.10.16 pence per share
<b>A Accumulation</b>				
Group 1	0.40000	-	0.40000	0.40000
Group 2	0.02853	0.37147	0.40000	0.40000
<b>A Income</b>				
Group 1	0.15000	-	0.15000	0.15000
Group 2	0.02086	0.12914	0.15000	0.15000
<b>B Accumulation</b>				
Group 1	0.50000	-	0.50000	0.50000
Group 2	0.13388	0.36612	0.50000	0.50000
<b>B Income</b>				
Group 1	0.20000	-	0.20000	0.20000
Group 2	0.08752	0.11248	0.20000	0.20000
<b>C Accumulation</b>				
Group 1	0.70000	-	0.70000	0.70000
Group 2	0.70000	-	0.70000	0.70000
<b>C Income</b>				
Group 1	0.25000	-	0.25000	0.25000
Group 2	0.25000	-	0.25000	0.25000

## Distribution Table cont.

Interim Distribution for the period ended 30 November 2017

Group 1 : shares purchased prior to 1 November 2017

Group 2 : shares purchased 1 November 2017 to 30 November 2017

	Net Revenue	Equalisation	Distribution (paid/accumulated 28.12.17)	Distribution (paid/accumulated 29.12.16)
	30.11.17 pence per share	30.11.17 pence per share	30.11.17 pence per share	30.11.16 pence per share
<b>A Accumulation</b>				
Group 1	0.40000	-	0.40000	0.40000
Group 2	0.09592	0.30408	0.40000	0.40000
<b>A Income</b>				
Group 1	0.15000	-	0.15000	0.15000
Group 2	0.03212	0.11788	0.15000	0.15000
<b>B Accumulation</b>				
Group 1	0.50000	-	0.50000	0.50000
Group 2	0.05161	0.44839	0.50000	0.50000
<b>B Income</b>				
Group 1	0.20000	-	0.20000	0.20000
Group 2	-	0.20000	0.20000	0.20000
<b>C Accumulation</b>				
Group 1	0.70000	-	0.70000	0.70000
Group 2	0.70000	-	0.70000	0.70000
<b>C Income</b>				
Group 1	0.25000	-	0.25000	0.25000
Group 2	0.25000	-	0.25000	0.25000

## Distribution Table cont.

Interim distribution for the period ended 31 December 2017

Group 1 : shares purchased prior to 1 December 2017

Group 2 : shares purchased 1 December 2017 to 31 December 2017

	Net Revenue	Equalisation	Distribution (paid/accumulated 30.01.18)	Distribution (paid/accumulated 30.01.17)
	31.12.17 pence per share	31.12.17 pence per share	31.12.17 pence per share	31.12.16 pence per share
A Accumulation				
Group 1	0.40000	-	0.40000	0.40000
Group 2	0.02456	0.37544	0.40000	0.40000
A Income				
Group 1	0.15000	-	0.15000	0.15000
Group 2	-	0.15000	0.15000	0.15000
B Accumulation				
Group 1	0.50000	-	0.50000	0.50000
Group 2	-	0.50000	0.50000	0.50000
B Income				
Group 1	0.20000	-	0.20000	0.20000
Group 2	-	0.20000	0.20000	0.20000
C Accumulation				
Group 1	0.70000	-	0.70000	0.70000
Group 2	0.70000	-	0.70000	0.70000
C Income				
Group 1	0.25000	-	0.25000	0.25000
Group 2	0.25000	-	0.25000	0.25000

## Distribution Table cont.

Interim Distribution for the period ended 31 January 2018

Group 1 : shares purchased prior to 1 January 2018

Group 2 : shares purchased 1 January 2018 to 31 January 2018

	Net Revenue	Equalisation	Distribution (paid/accumulated 27.02.18)	Distribution (paid/accumulated 27.02.17)
	31.01.18 pence per share	31.01.18 pence per share	31.01.18 pence per share	31.01.17 pence per share
<b>A Accumulation</b>				
Group 1	0.40000	-	0.40000	0.40000
Group 2	-	0.40000	0.40000	0.40000
<b>A Income</b>				
Group 1	0.15000	-	0.15000	0.15000
Group 2	-	0.15000	0.15000	0.15000
<b>B Accumulation</b>				
Group 1	0.50000	-	0.50000	0.50000
Group 2	-	0.50000	0.50000	0.50000
<b>B Income</b>				
Group 1	0.20000	-	0.20000	0.20000
Group 2	-	0.20000	0.20000	0.20000
<b>C Accumulation</b>				
Group 1	0.70000	-	0.70000	0.70000
Group 2	0.70000	-	0.70000	0.70000
<b>C Income</b>				
Group 1	0.25000	-	0.25000	0.25000
Group 2	0.25000	-	0.25000	0.25000

## Distribution Table cont.

Interim Distribution for the period ended 28 February 2018

Group 1 : shares purchased prior to 1 February 2018

Group 2 : shares purchased 1 February 2018 to 28 February 2018

	Net Revenue	Equalisation	Distribution (paid/accumulated 28.03.18)	Distribution (paid/accumulated 30.03.17)
	28.02.18 pence per share	28.02.18 pence per share	28.02.18 pence per share	28.02.17 pence per share
<b>A Accumulation</b>				
Group 1	0.40000	-	0.40000	0.40000
Group 2	-	0.40000	0.40000	0.40000
<b>A Income</b>				
Group 1	0.15000	-	0.15000	0.15000
Group 2	-	0.15000	0.15000	0.15000
<b>B Accumulation</b>				
Group 1	0.50000	-	0.50000	0.50000
Group 2	-	0.50000	0.50000	0.50000
<b>B Income</b>				
Group 1	0.20000	-	0.20000	0.20000
Group 2	-	0.20000	0.20000	0.20000
<b>C Accumulation</b>				
Group 1	0.70000	-	0.70000	0.70000
Group 2	0.70000	-	0.70000	0.70000
<b>C Income</b>				
Group 1	0.25000	-	0.25000	0.25000
Group 2	0.25000	-	0.25000	0.25000

## Distribution Table cont.

Interim distributions for the period ended 31 March 2018

Group 1 : shares purchased prior to 1 March 2018

Group 2 : shares purchased 1 March 2018 to 31 March 2018

	Net Revenue	Equalisation	Distribution (paid/accumulated 27.04.18)	Distribution (paid/accumulated 27.04.17)
	31.03.18 pence per share	31.03.18 pence per share	31.03.18 pence per share	31.03.17 pence per share
<b>A Accumulation</b>				
Group 1	0.40000	-	0.40000	0.40000
Group 2	-	0.40000	0.40000	0.40000
<b>A Income</b>				
Group 1	0.15000	-	0.15000	0.15000
Group 2	-	0.15000	0.15000	0.15000
<b>B Accumulation</b>				
Group 1	0.50000	-	0.50000	0.50000
Group 2	-	0.50000	0.50000	0.50000
<b>B Income</b>				
Group 1	0.20000	-	0.20000	0.20000
Group 2	-	0.20000	0.20000	0.20000
<b>C Accumulation</b>				
Group 1	0.70000	-	0.70000	0.70000
Group 2	0.70000	-	0.70000	0.70000
<b>C Income</b>				
Group 1	0.25000	-	0.25000	0.25000
Group 2	0.25000	-	0.25000	0.25000



## Distribution Table cont.

### Interim Distribution for the period ended 30 April 2018

Group 1 : shares purchased prior to 1 April 2018

Group 2 : shares purchased 1 April 2018 to 30 April 2018

	Net Revenue	Equalisation	Distribution (paid/accumulated 30.05.18)	Distribution (paid/accumulated 30.05.17)
	30.04.18 pence per share	30.04.18 pence per share	30.04.18 pence per share	30.04.17 pence per share
<b>A Accumulation</b>				
Group 1	0.40000	-	0.40000	0.40000
Group 2	-	0.40000	0.40000	0.40000
<b>A Income</b>				
Group 1	0.15000	-	0.15000	0.15000
Group 2	-	0.15000	0.15000	0.15000
<b>B Accumulation</b>				
Group 1	0.50000	-	0.50000	0.50000
Group 2	-	0.50000	0.50000	0.50000
<b>B Income</b>				
Group 1	0.20000	-	0.20000	0.20000
Group 2	-	0.20000	0.20000	0.20000
<b>C Accumulation</b>				
Group 1	0.70000	-	0.70000	0.70000
Group 2	0.70000	-	0.70000	0.70000
<b>C Income</b>				
Group 1	0.25000	-	0.25000	0.25000
Group 2	0.25000	-	0.25000	0.25000

## Distribution Table cont.

### Interim Distribution for the period ended 31 May 2018

Group 1 : shares purchased prior to 1 May 2018

Group 2 : shares purchased 1 May 2018 to 31 May 2018

	Net Revenue	Equalisation	Distribution (paid/accumulated 28.06.18)	Distribution (paid/accumulated 29.06.17)
	31.05.18 pence per share	31.05.18 pence per share	31.05.18 pence per share	31.05.17 pence per share
<b>A Accumulation</b>				
Group 1	0.40000	-	0.40000	0.40000
Group 2	-	0.40000	0.40000	0.40000
<b>A Income</b>				
Group 1	0.15000	-	0.15000	0.15000
Group 2	-	0.15000	0.15000	0.15000
<b>B Accumulation</b>				
Group 1	0.50000	-	0.50000	0.50000
Group 2	-	0.50000	0.50000	0.50000
<b>B Income</b>				
Group 1	0.20000	-	0.20000	0.20000
Group 2	-	0.20000	0.20000	0.20000
<b>C Accumulation</b>				
Group 1	0.70000	-	0.70000	0.70000
Group 2	0.70000	-	0.70000	0.70000
<b>C Income</b>				
Group 1	0.25000	-	0.25000	0.25000
Group 2	0.25000	-	0.25000	0.25000

## Distribution Table cont.

Interim distribution for the period ended 30 June 2018

Group 1 : share purchased prior to 1 June 2018

Group 2 : share purchased 1 June 2018 to 30 June 2018

	Net Revenue	Equalisation	Distribution (paid/accumulated 30.07.18)	Distribution (paid/accumulated 28.07.17)
	30.06.18 pence per share	30.06.18 pence per share	30.06.18 pence per share	30.06.17 pence per share
<b>A Accumulation</b>				
Group 1	0.40000	-	0.40000	0.40000
Group 2	-	0.40000	0.40000	0.40000
<b>A Income</b>				
Group 1	0.15000	-	0.15000	0.15000
Group 2	-	0.15000	0.15000	0.15000
<b>B Accumulation</b>				
Group 1	0.50000	-	0.50000	0.50000
Group 2	-	0.50000	0.50000	0.50000
<b>B Income</b>				
Group 1	0.20000	-	0.20000	0.20000
Group 2	-	0.20000	0.20000	0.20000
<b>C Accumulation</b>				
Group 1	0.70000	-	0.70000	0.70000
Group 2	0.70000	-	0.70000	0.70000
<b>C Income</b>				
Group 1	0.25000	-	0.25000	0.25000
Group 2	0.25000	-	0.25000	0.25000

## Distribution Table cont.

Interim Distribution for the period ended 31 July 2018

Group 1 : shares purchased prior to 1 July 2018

Group 2 : shares purchased 1 July 2018 to 31 July 2018

	Net Revenue	Equalisation	Distribution (paid/accumulated 30.08.18)	Distribution (paid/accumulated 30.08.17)
	31.07.18 pence per share	31.07.18 pence per share	31.07.18 pence per share	31.07.17 pence per share
<b>A Accumulation</b>				
Group 1	0.40000	-	0.40000	0.40000
Group 2	-	0.40000	0.40000	0.40000
<b>A Income</b>				
Group 1	0.15000	-	0.15000	0.15000
Group 2	-	0.15000	0.15000	0.15000
<b>B Accumulation</b>				
Group 1	0.50000	-	0.50000	0.50000
Group 2	-	0.50000	0.50000	0.50000
<b>B Income</b>				
Group 1	0.20000	-	0.20000	0.20000
Group 2	-	0.20000	0.20000	0.20000
<b>C Accumulation</b>				
Group 1	0.70000	-	0.70000	0.70000
Group 2	0.70000	-	0.70000	0.70000
<b>C Income</b>				
Group 1	0.25000	-	0.25000	0.25000
Group 2	0.25000	-	0.25000	0.25000

## Distribution Table cont.

Interim Distribution for the period ended 31 August 2018

Group 1 : shares purchased prior to 1 August 2018

Group 2 : shares purchased 1 August 2018 to 31 August 2018

	Net Revenue	Equalisation	Distribution (paid/accumulated 27.09.18)	Distribution (paid/accumulated 28.09.17)
	31.08.18 pence per share	31.08.18 pence per share	31.08.18 pence per share	31.08.17 pence per share
<b>A Accumulation</b>				
Group 1	0.40000	-	0.40000	0.40000
Group 2	-	0.40000	0.40000	0.40000
<b>A Income</b>				
Group 1	0.15000	-	0.15000	0.15000
Group 2	-	0.15000	0.15000	0.15000
<b>B Accumulation</b>				
Group 1	0.50000	-	0.50000	0.50000
Group 2	-	0.50000	0.50000	0.50000
<b>B Income</b>				
Group 1	0.20000	-	0.20000	0.20000
Group 2	-	0.20000	0.20000	0.20000
<b>C Accumulation</b>				
Group 1	0.70000	-	0.70000	0.70000
Group 2	0.70000	-	0.70000	0.70000
<b>C Income</b>				
Group 1	0.25000	-	0.25000	0.25000
Group 2	0.25000	-	0.25000	0.25000

## Distribution Table cont.

Final distribution for the period ended 30 September 2018

Group 1 : shares purchased prior to 1 September 2018

Group 2 : shares purchased 1 September 2018 to 30 September 2018

	Net Revenue	Equalisation	Distribution (paid/accumulated 30.10.18)	Distribution (paid/accumulated 27.10.17)
	30.09.18 pence per share	30.09.18 pence per share	30.09.18 pence per share	30.09.17 pence per share
<b>A Accumulation</b>				
Group 1	1.49000	-	1.49000	1.39000
Group 2	0.33904	1.15096	1.49000	1.39000
<b>A Income</b>				
Group 1	0.81000	-	0.81000	0.87000
Group 2	0.06722	0.74278	0.81000	0.87000
<b>B Accumulation</b>				
Group 1	1.89000	-	1.89000	1.60000
Group 2	0.31854	1.57146	1.89000	1.60000
<b>B Income</b>				
Group 1	0.84000	-	0.84000	0.84000
Group 2	0.12678	0.71322	0.84000	0.84000
<b>C Accumulation</b>				
Group 1	1.94000	-	1.94000	2.22000
Group 2	1.94000	-	1.94000	2.22000
<b>C Income</b>				
Group 1	0.89000	-	0.89000	0.85000
Group 2	0.89000	-	0.89000	0.85000



## General Information

### Dilution Adjustment

A sub-fund suffers dilution (reduction) in the value of the Scheme Property attributable to it because the actual costs of buying or selling investments for the sub-fund deviate from the mid-market values generally used in calculating the price of shares in the sub-fund. Such deviation may occur as a result of the costs (which may include dealing charges and taxes) incurred in dealing in such investments and of any spread between the buying and selling prices of such investments. It is not possible to predict accurately whether dilution is likely to occur.

The COLL Rules allow the cost of dilution to be (1) met directly from the Scheme Property attributable to the sub-fund or (2) addressed by the imposition on investors of a dilution levy on the issue by the Company, sale by the ACD, cancellation by the Company or redemption by the ACD of shares in the sub-fund or (3) dealt with by means of a dilution adjustment, which is the policy which has been adopted by the ACD in relation to the sub-funds of the Company. With a view to mitigating the effects of dilution, the ACD therefore reserves the right at its sole discretion to make a dilution adjustment in the calculation of the dealing price, and thereby swing the dealing price, of shares in any sub-fund of the Company if in its opinion the existing shareholders (for net purchases of shares) or remaining shareholders (for net redemptions of shares) might otherwise be adversely affected. By 'purchases' of shares we mean issues by the Company and sales by the ACD and by 'redemptions' of shares we mean cancellations by the Company and redemptions by the ACD.

The COLL Rules acknowledge that the need to make a dilution adjustment may depend on the volume of purchases of shares or redemptions of shares. Accordingly, the ACD reserves the right at its sole discretion to impose a dilution adjustment in the following circumstances:

- (a) If the sub-fund is experiencing steady decline (net outflow of investment).
- (b) If the sub-fund is experiencing steady growth (net inflow of investment).

- (c) If the sub-fund is experiencing large levels of net purchases or net redemptions relative to its size.
- (d) Where the sub-fund experiences net purchases or net redemptions on any Dealing Day exceeding a particular value or a particular percentage of the value of the sub-fund.
- (e) In any other circumstances where the ACD believes it will be in the interests of Shareholders to make a dilution adjustment.

The ACD is currently of the opinion that it is in the best interests of shareholders in the Company to make a dilution adjustment whenever dealings in the shares of any sub-fund result in shares in that sub-fund being issued or cancelled by the Company. The adjustment will take account of any spread between the buying and selling prices of the relevant sub-fund's investments and the costs (which may include dealing charges and taxes) of acquiring or disposing of such investments, as the case may be.

The level of the dilution adjustment is set by the ACD based on prevailing market conditions. Where liquidity is restricted and trading in size in the portfolio's investments results in significant movement in the prices of these investments the ACD may adjust the level of the dilution adjustment to protect the interests of the ongoing investors in a sub-fund. The ACD has thresholds for the sub-funds for daily net inflows or outflows of cash into or out of the sub-funds. Above these thresholds, which vary by sub-fund and according to market conditions, the ACD will increase the dilution adjustment to reflect the increased dealing costs incurred by the sub-funds 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. Whether an adjustment may be necessary will depend upon the net movement into or out of a sub-fund on any given day and on the underlying market conditions on that day and it is therefore not possible to predict when an adjustment may be made.



## General Information cont.

### Dilution Adjustment cont.

On any Dealing Day when the Company neither issues nor cancels shares in a sub-fund the price of shares in that sub-fund will not contain any dilution adjustment.

This policy to swing the dealing price will be subject to regular review and may change. The ACD's decision on whether or not to make a dilution adjustment, and on what level of adjustment to make in particular circumstances or generally, will not prevent it from making a different decision in similar circumstances in the future.

Where a dilution adjustment is applied, it will increase the dealing price when there are net inflows into the relevant sub-fund and decrease the dealing price when there are net outflows. The dealing price of each class of share in a sub-fund will be calculated separately but any dilution adjustment will in percentage terms affect the dealing price of shares of each class identically.

On the occasions when no dilution adjustment is made there may be an adverse impact on the value of the Scheme Property attributable to the relevant sub-fund.

The dilution adjustment can vary over time and vary depending on the assets attributable to the relevant sub-fund.

As dilution is directly related to the inflows and outflows of monies from a sub-fund, it is not possible to predict accurately whether dilution will occur at any point in time. Consequently it is also not possible to predict accurately how frequently the ACD will need to make a dilution adjustment.

### Stamp Duty Reserve Tax (SDRT)

Generally, there will be no charge to SDRT when Shareholders surrender or redeem shares. However, where the redemption is satisfied by a non-pro rata in specie redemption, then a charge of SDRT may apply.

### Taxation Reporting

In order to fulfil its legal obligations, the ACD is required to collect and report certain information about shareholders, including their identity, tax residency and tax status. Shareholders must provide the ACD with any information required to meet these obligations, and may also be asked to provide self-certifications and tax reference numbers or the equivalent. The ACD reserves the right to refuse an application for shares or a transfer of shares until it receives a declaration as to the shareholder's tax residency or status in the form prescribed by the ACD.

The ACD is also required to provide to HMRC certain information regarding shareholders, payments made to shareholders and proceeds arising on the disposal of shares, and HMRC may pass such information on to the tax authorities of another jurisdiction.

While the ACD is not required to report income payments in the form of interest payments made to corporate bodies, such corporate bodies may have reporting obligations of their own if they are receiving payments on behalf of reportable persons.

### Share Classes

The net asset value of each share class, the net asset value per share, and the number of shares in each class are shown in the Comparative Tables sections of the relevant sub-fund. The distributions per share class are shown in the Distribution Tables. In each sub-fund all share classes have the same rights on winding up.

Where Class C Shares are available, they are only available to persons to whom the ACD, or an associate of the ACD provides services under an investment management agreement or who has a separate fee arrangement with the ACD or one of its associates.

In the case of Baillie Gifford Active Gilt Investment Fund (formerly known as Baillie Gifford Active Gilt Plus Fund), Class G Shares are only available to persons who

## General Information cont.

### Share Classes cont.

were previously investors in Class P units of Baillie Gifford Active Gilt Plus Pension Fund and such other persons as the ACD may permit at its sole discretion.

In the case of Baillie Gifford Active Index-Linked Gilt Investment Fund (formerly known as Baillie Gifford Active Index-Linked Gilt Plus Fund), Class G Shares are only available to persons who were previously investors in Class P units of Baillie Gifford Active Index-Linked Gilt Plus Pension Fund and such other persons as the ACD may permit at its sole discretion.

In the case of Baillie Gifford Active Long Gilt Plus Fund (formerly known as Baillie Gifford Active Long Gilt Plus Fund), Class G Shares are only available to persons who were previously investors in Class P units of Baillie Gifford Active Long Gilt Plus Pension Fund and such other persons as the ACD may permit at its sole discretion. That pension fund was a unit linked fund of Baillie Gifford Life Limited, an associate of the ACD.

The minimum lump sum investment amounts are shown in the table on page 297.

### Equalisation

The Company will operate grouping for equalisation. Each class of shares will operate its own equalisation account. Shares purchased during an accounting period are called Group 2 shares. Shares purchased during any previous accounting period are called Group 1 shares. Group 2 shares contain in their purchase price an amount called equalisation which represents a proportion of the net income of the sub-fund that has accrued up to the date of purchase. The amount of equalisation is averaged across all the shareholders of Group 2 shares and is refunded to them as part of their first distribution and is treated as a return of capital for tax purposes. Being capital it is not liable to income tax but must be deducted from the cost of the shares for capital gains tax purposes.

An 'income equalisation-like' mechanism will be operated by the ACD for conversions. The ACD will ensure that the mechanism is operated to ensure fair treatment of those converting their shares and other shareholders in the affected classes.

### Fund Charges and Costs

A further explanation of charges and costs relating to the sub-funds of the ICVC can be found in the Enhanced Disclosure of Fund Charges and Costs document for each sub-fund on our website.

### Conflicts of Interest

From time to time, there may be situations that give rise to a material interest or conflict of interest. Such interests can arise between the interests of the ACD, the Investment Adviser, other persons associated with them and the interests of the sub-funds and their shareholders. A material interest or a conflict of interest can also arise between the interests of different shareholders. In such circumstances the ACD will put in place effective organisational and administrative arrangements to manage and monitor the material interest or conflict of interest in a way that ensures shareholders are treated fairly, or where it is impractical to manage the conflict, it will be disclosed.

The ACD, the Investment Adviser and other persons associated with them may, from time to time, act as authorised corporate directors, investment managers or advisers to other persons, companies or funds which follow similar investment objectives to the sub-funds. It is therefore possible that the ACD and/or the Investment Adviser may in the course of their business have potential conflicts of interest with the Company or a particular sub-fund. Each of the ACD and the Investment Adviser will, however, have regard in such event to, amongst other things, its obligation to act in the best interests of the Company so far as practicable, having regard to its obligations to other clients, when

## General Information cont.

### **Conflicts of Interest cont.**

undertaking any investment where potential conflicts of interest may arise. The Depositary may, from time to time, act as the depositary or trustee of other companies or funds.

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## General Information cont.

### Minimum Lump Sum Investments and ACD's Annual Fee

	Class A	Class B	Class C	Class G
<b>Minimum lump sum investments:</b>				
Baillie Gifford Active Gilt Investment Fund	£1,000	£1,000	£250,000	£250,000
Baillie Gifford Active Index-Linked Gilt Investment Fund	n/a	£250,000	£250,000	£250,000
Baillie Gifford Active Long Gilt Investment Fund	n/a	£250,000	£250,000	£250,000
Baillie Gifford Emerging Markets Bond Fund	£1,000	£1,000	£250,000	n/a
Baillie Gifford High Yield Bond Fund	£1,000	£1,000	£250,000	n/a
Baillie Gifford Investment Grade Bond Fund	£1,000	£1,000	£250,000	n/a
Baillie Gifford Investment Grade Long Bond Fund	n/a	£250,000	£250,000	n/a
Baillie Gifford Strategic Bond Fund	£1,000	£1,000	£250,000	n/a
<b>ACD's annual fee:</b>				
Baillie Gifford Active Gilt Investment Fund	0.80% <sup>1</sup>	0.15% <sup>2</sup>	Nil	0.15% <sup>3</sup>
Baillie Gifford Active Index-Linked Gilt Investment Fund	n/a	0.15% <sup>2</sup>	Nil	0.15% <sup>3</sup>
Baillie Gifford Active Long Gilt Investment Fund	n/a	0.15% <sup>2</sup>	Nil	0.15% <sup>3</sup>
Baillie Gifford Emerging Markets Bond Fund	1.10% <sup>4</sup>	0.40% <sup>5</sup>	Nil	n/a
Baillie Gifford High Yield Bond Fund	1.00%	0.35%	Nil	n/a
Baillie Gifford Investment Grade Bond Fund	1.00%	0.25%	Nil	n/a
Baillie Gifford Investment Grade Long Bond Fund	n/a	0.25%	Nil	n/a
Baillie Gifford Strategic Bond Fund	1.00%	0.50%	Nil	n/a

<sup>1</sup>With effect from 1 November 2018, the ACD's annual fee on Class A Shares of Baillie Gifford Active Gilt Investment Fund decreased from 1.00% to 0.80%.

<sup>2</sup>With effect from 1 November 2018, the ACD's annual fee on Class B Shares of Baillie Gifford Active Gilt Investment Fund, Baillie Gifford Active Index-Linked Gilt Investment Fund and Baillie Gifford Active Long Gilt Investment Fund decreased from 0.35% to 0.15%.

<sup>3</sup>With effect from 1 November 2018, the ACD's annual fee on Class G Shares of Baillie Gifford Active Gilt Investment Fund, Baillie Gifford Active Index-Linked Gilt Investment Fund and Baillie Gifford Active Long Gilt Investment Fund decreased from 0.25% to 0.15%.

<sup>4</sup>With effect from 1 July 2018, the ACD's annual fee on Class A Shares of Baillie Gifford Emerging Markets Bond Fund decreased from 1.30% to 1.10%.

<sup>5</sup>With effect from 1 July 2018, the ACD's annual fee on Class B Shares of Baillie Gifford Emerging Markets Bond Fund decreased from 0.60% to 0.40%.

## The Group's Funds

### Baillie Gifford Bond Funds ICVC

Baillie Gifford Active Gilt Investment Fund <sup>1</sup>
Baillie Gifford Active Index-Linked Gilt Investment Fund <sup>2</sup>
Baillie Gifford Active Long Gilt Investment Fund <sup>3</sup>
Baillie Gifford Emerging Markets Bond Fund
Baillie Gifford High Yield Bond Fund
Baillie Gifford Investment Grade Bond Fund
Baillie Gifford Investment Grade Long Bond Fund
Baillie Gifford Strategic Bond Fund

### Baillie Gifford Investment Funds ICVC

Baillie Gifford Diversified Growth Fund
Baillie Gifford Long Term Global Growth Investment Fund
Baillie Gifford Multi Asset Growth Fund
Baillie Gifford Positive Change Fund

### Baillie Gifford Investment Funds II ICVC

Baillie Gifford Global Stewardship Fund <sup>4</sup>
Baillie Gifford Japanese Income Growth Fund
Baillie Gifford Multi Asset Income Fund <sup>5</sup>
Baillie Gifford Sterling Aggregate Bond Fund
Baillie Gifford Sterling Aggregate Plus Bond Fund
Baillie Gifford UK Equity Core Fund

### Baillie Gifford Overseas Growth Funds ICVC

Baillie Gifford American Fund
Baillie Gifford Developed Asia Pacific Fund
Baillie Gifford Emerging Markets Growth Fund
Baillie Gifford Emerging Markets Leading Companies Fund
Baillie Gifford European Fund
Baillie Gifford Global Discovery Fund
Baillie Gifford Greater China Fund
Baillie Gifford Japanese Fund
Baillie Gifford Japanese Smaller Companies Fund
Baillie Gifford Pacific Fund

### Baillie Gifford UK & Balanced Funds ICVC

Baillie Gifford British Smaller Companies Fund
Baillie Gifford Global Alpha Growth Fund
Baillie Gifford Global Income Growth Fund
Baillie Gifford International Fund
Baillie Gifford Managed Fund
Baillie Gifford Responsible Global Equity Income Fund <sup>6</sup>
Baillie Gifford UK and Worldwide Equity Fund
Baillie Gifford UK Equity Alpha Fund
Baillie Gifford UK Equity Focus Fund
Glenfinlas Global Fund <sup>7</sup>

<sup>1</sup>With effect from 1 November 2018 the name of Baillie Gifford Active Gilt Plus Fund was changed to Baillie Gifford Active Gilt Investment Fund.

<sup>2</sup>With effect from 1 November 2018 the name of Baillie Gifford Active Index-Linked Gilt Plus Fund was changed to Baillie Gifford Active Index-Linked Gilt Investment Fund.

<sup>3</sup>With effect from 1 November 2018 the name of Baillie Gifford Active Long Gilt Plus Fund was changed to Baillie Gifford Active Long Gilt Investment Fund.

<sup>4</sup>With effect from 1 November 2018 the name of Baillie Gifford Global Select Fund was changed to Baillie Gifford Global Stewardship Fund.

<sup>5</sup>Baillie Gifford Multi Asset Income Fund launched on 31 August 2018.

<sup>6</sup>Baillie Gifford Responsible Global Equity Income Fund is currently not available for subscription.

<sup>7</sup>Glenfinlas Global Fund is no longer available for subscription.

**For further information about the Funds or  
Baillie Gifford's range of OEICS, please:**

Contact us at: Client Relations Team  
Baillie Gifford & Co Limited,  
Calton Square, 1 Greenside Row,  
Edinburgh EH1 3AN

Call our Client Relations Team on 0800 917 2113. Your  
call may be recorded for training or monitoring purposes.

Visit our website at [www.bailliegifford.com](http://www.bailliegifford.com), or email us  
on [trusenquiries@bailliegifford.com](mailto:trusenquiries@bailliegifford.com).

Or fax us on 0131 275 3955.

