

Baillie Gifford High Yield Bond B Inc

November 2021
Investment Research



Overview

This fund predominantly invests in sub-investment grade corporate bonds, with a focus on providing income, although the level of income is not guaranteed and will vary depending on the market cycle and conditions. Through the process of identifying and investing in undervalued bonds, there is potential for some capital appreciation over the longer term, although this is a secondary consideration.

Capital Accumulation	Capital Preservation	Income	Inflation Protection
		●	

Square Mile Expected Outcome

We believe outperforming the benchmark, the ICE BofA Global HY 50% European- 50% N. America Constrained index (hedged to GBP), on a rolling three year basis, is a reasonable expectation for this fund.

Active/Passive: Active	Domicile: United Kingdom
Asset Class: Fixed Income	IA Sector: IA Sterling High Yield
Launch Date: 30/11/2001	Fund Size (as at 12 Nov 2021): £828.7m
Yield: 4.19%	Distribution Pay Date: Mar 31, Jun 30, Sep 30 (Final), Dec 31
Fund Manager: Lucy Isles, Robert Baltzer	Ongoing Charge Figure: 0.37%
	Transaction Cost ex Ante: 0.16%



Fund Opinion

This fund provides exposure to sub-investment grade corporate bonds through a process which is both robust and slightly different to many of its competitors. Whilst the managers have only been a partnership on this fund since early 2018, they have worked together as part of the wider Baillie Gifford team for a number of years. Mr Baltzer has been named on the fund since 2010 and is an experienced and proven investor, and we believe that he is ably supported by Ms Isles and the rest of the team. We have confidence that the managers will continue to follow the team's process and generate a good level of income for investors.

High Yield indices have historically proved difficult for investment funds to outperform due to both the costs of trading as well as many bonds being held privately to maturity and thereby preventing collective funds accessing attractive coupons. The fund's modest rate of index outperformance does not therefore concern us. Due to the process which the managers employ, the fund may look and perform in a way which is different to both the peer group and the benchmark. Whilst the managers look to primarily invest in resilient companies, they will also identify and invest in undervalued securities meaning that performance could be more volatile than other funds, a feature that can lead to the fund underperforming in a falling market and outperforming in a rising market. This fund would be most suitable for investors who are looking for a relatively high level of income, with the potential for some capital growth, and who are prepared to hold the fund over longer time periods (at least one full market cycle).

The TCI (total cost of investment) of this fund is at the bottom of the range for the IA sterling high yield sector. Given the resources at Baillie Gifford and the high calibre management team and process, as well as the strong performance track record, we consider this fund to offer exceptional value for money.

Fund Description

The fund is managed by Robert Baltzer and Lucy Isles. Mr Baltzer started his career at Baillie Gifford in 2001, and has since progressed from being an analyst to heading up credit research at Baillie Gifford. Ms Isles joined the company as a graduate from the University of St Andrews in 2012 and became an investment manager in the high yield team in 2015. She was named as co-manager on this fund in January 2018. In reality the fund is managed using a collegiate approach, and the managers can also draw upon the expertise of the wider credit and equity teams at Baillie Gifford. Baillie Gifford was founded in 1908 and is one of the largest independent active investment managers in the UK, investing across fixed income and equities globally.

Baillie Gifford believe that the corporate bond markets are inefficient and often fail to reflect all relevant information. This, combined with the segmented nature of the markets, frequently causes bonds to move away from their fair valuations, creating opportunities for investors who can analyse the relevant information and take advantage of such mis-pricings. As active managers, the corporate bond team at Baillie Gifford seek to benefit from opportunities in the market, which they identify through closely analysing the underlying company's creditworthiness and the characteristics of individual securities. The team seek to invest in a diverse range of bonds with attractive potential returns issued by high quality companies and are prepared to go against market consensus in order to follow their investment philosophy.

In essence the team look to identify resilient companies within high yield markets. A resilient company is deemed to have a durable competitive position, a good approach to governance and sustainability and an appropriate capital structure. Through their analysis the team will also look to identify bonds which are trading below their fair fundamental valuations, and which have an identifiable catalyst that will trigger a market revaluation. The result of this careful, bottom up, investment process is a relatively concentrated portfolio of around 60 to 90 stocks. Position sizes usually vary from 1% to 3.5%, but in exceptional circumstances can be up to 5%, depending on the relative risk of the bond, the size of the mis-valuation, the team's conviction and the correlation of the position to other positions in the portfolio. The turnover of the portfolio is low, as they have long term conviction in their holdings and it generally takes some time for identified catalysts to occur.

The fund invests mainly in sub-investment grade corporate bonds, but can hold investment grade issues where these have risk and return characteristics more akin to the sub-investment grade market (for example, certain financial bonds). Allocations across the ratings spectrum are a result of bottom-up positioning and are not specifically targeted. The fund can hold up to 5% in cash for liquidity purposes. Holdings can be issued across the developed markets and are hedged back to sterling.

Risk Summary

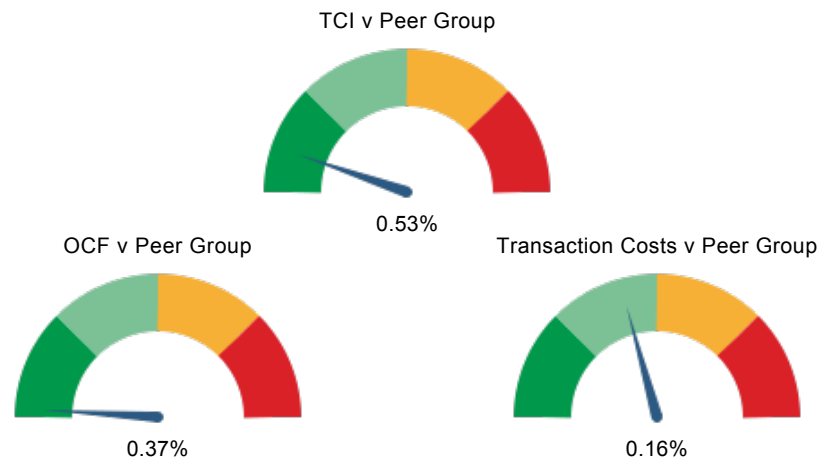
This fund invests in lower quality (sub-investment grade) fixed income instruments. The overriding risk present in the fund is therefore likely to be credit risk. If default rates increase it is likely to have an adverse impact on the fund.

The impact of elevated default rates should however be softened by the extensive credit research which the team at Baillie Gifford undertake, however there is always a possibility that a bond in the fund could default on its obligations. The fund is well diversified and the impact of any individual bond defaulting should thus be small. The managers can also invest in undervalued bonds which tend to be more volatile in their performance profile which can lead to the fund exhibiting more volatility than its peer group. Ultimately we believe that the managers are capable of balancing risk with return in a manner so as to deliver the best outcome for investors.

Value for Money

The ongoing charge figure (OCF) for this fund is right at the bottom end of the range for the peer group, the fund's transaction costs have also been small, this results in a very low TCI (total cost of investment) for the fund which, in our opinion, represents excellent value for money. Sub-investment grade bonds require a considerable amount of analysis, and the fact that this fund offers access to experienced managers and a team of analysts with a well-defined investment process at such an attractive price should be appealing to many investors.

Following the introduction of MiFID II regulations, Baillie Gifford has absorbed the costs associated with their research, this has slightly reduced the overall fee paid by investors. This step is at the discretion of each fund group, but it is one that a number of firms have followed.



ESG Integration

Company Assessment	0	1	2+	3
Demonstrable steps are being taken to fully integrate ESG factors into all of the company's investment processes.				
UN PRI Strategy & Governance Rating	A+			
Fund Assessment	0	1	2+	3
The manager is taking demonstrable steps to fully integrate ESG into the management of the strategy.				

Responsible Investing Approach

Exclusion	Responsible Practices	Sustainability	Impact
☐	☐	☐	☐

Additional Information

Annualised Return	4.98%
Annualised Volatility	9.15%
Max Drawdown	-18.86%
Max Gain	7.59%
Max Loss	-18.86%
Sharpe Ratio	0.48
Sortino Ratio	0.34

(3 years data to last month end unless otherwise stated)

Currency of Share Class

GBP

Fund Price (as at 12 Nov 2021)

133.8 pence

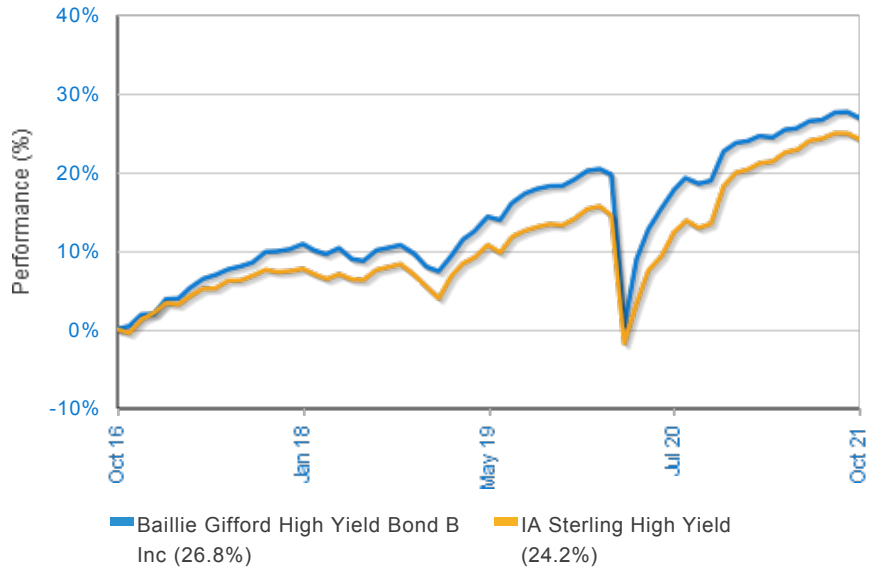
Benchmark

ICE BofA Global HY 50% European -
50% North American Constrained

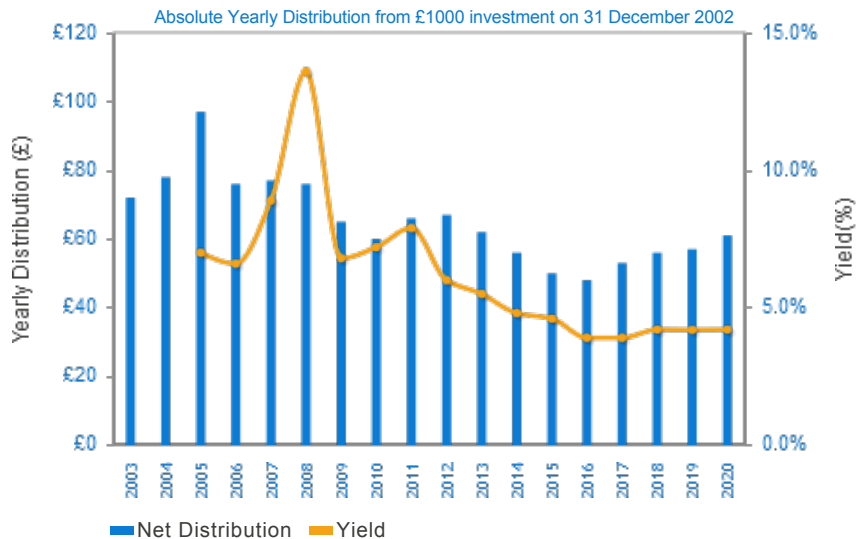
Discrete Annual Performance to Last Quarter End

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	7.7	10.6	4
12-24m	0.3	-0.4	3
24-36m	6.8	4.7	1
36-48m	2.0	1.4	1
48-60m	9.2	7.4	2

Capital Growth



Income



This graph assumes that income is distributed to shareholders and not reinvested. Yield represents share price fluctuations.

Credit Rating (Data as at 31 Oct 2021)

Name	%
A	1.9
BBB	3.7
BB	56.5
B	30.9

Asset Allocation Positioning

Name	%
North American High Yield Fixed Interest	38.1
European High Yield Fixed Interest	31.2
UK High Yield Fixed Interest	20.2
Global High Yield Fixed Interest	9.6
Money Market	0.9

(Data as at 30 Sep 2021)

Top Ten Holdings

(Data as at 30 Sep 2021)

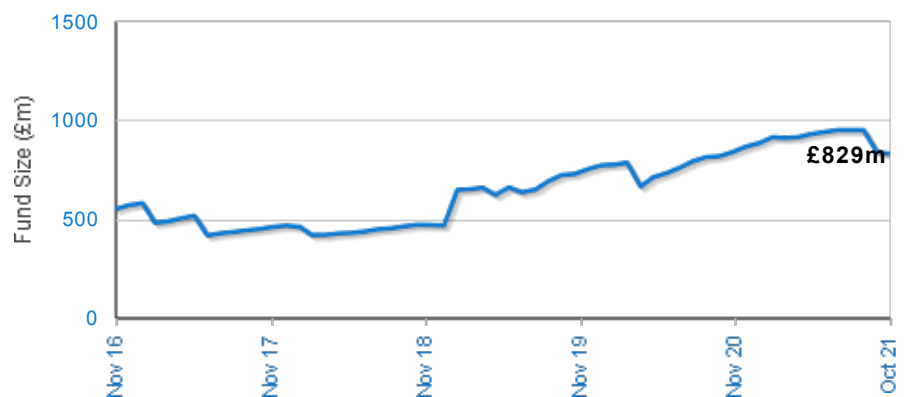
Company Name	%
PAYMENTSENSE LTD 8% BDS 15/10/25 GBP1000REG S	22
BURFORD CAPITAL PLC 6.25% BDS 15/04/28 USD200000	2.1
VIRGIN MEDIA SECURED FINANCE PLC 4.125% BDS 15/08/30 GBP100000	2.0
UNICREDIT 4.875% 2024/29	1.9
ANGI HOMESERVICES INC 3.875% BDS 15/08/28 USD2000144A	1.8
CROWDSTRIKE HLDGS INC 3% BDS 15/02/29 USD1000	1.8
PAPREC HLDG 4% SNR SEC NTS 31/03/25 EUR 144A	1.8
ROTHESAY LIFE 6.875% PERP	1.8
ADEVINTA ASA 3% BDS 15/11/27 EUR100000REG S	1.7
LEASEPLAN 7.375% 2024 PERP AT1	1.7

Sector Breakdown

(Data as at 30 Sep 2021)

**Geographic Breakdown**

(Data as at 30 Sep 2021)

**Assets Under Management**

Qualitative Risk Assessment

	Significant	Potentially Significant	Not Significant
Equity Risk			●
Interest Rate Risk			●
Credit Risk	●		
Exchange Rate Risk			●
Liquidity Risk	●		
Emerging Markets Risk			●
Derivative Risk			●
Manager Risk		●	

Equity Risk

The fund has no material direct exposure to shares.

Interest Rate Risk

The fund is predominately invested in lower quality fixed interest markets. Rising interest rates are a risk, though the impact may be limited.

Credit Risk

The fund has significant exposure to high yield debt rated below investment grade. Credit defaults and downgrades may adversely impact the fund price, typically this occurs at times of economic weakness.

Exchange Rate Risk

The fund has exposure to assets denominated in foreign currencies but the manager intends to largely hedge the foreign exchange risks away.

Liquidity Risk

The fund invests in assets which could be difficult to sell at certain times. In extreme circumstances the fund may have to resort to selling assets at below fair value. The risks of this happening are most acute at times of financial distress.

Emerging Markets Risk

The fund predominantly invests in securities issued by governments or companies in developed markets.

Derivative Risk

The portfolio is predominantly invested in underlying cash securities, although derivatives are used for risk management purposes. Derivatives are complex instruments and investors should be aware that they may not behave in the manner that the manager intends.

Manager Risk

The managers are seen as an important element in Square Mile's rating of the fund, although potential alternatives may exist elsewhere in the organisation. A reappraisal of the rating following a manger departure is likely.

FE Risk Rating: 42.00

SRRI: 4

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