Baillie Gifford High Yield Bond

Fund Research Centre
Recommended

Why we recommend the fund

- This Recommended fund is managed according to a clear, fundamentally driven approach whereby the managers seek out high yielding securities issued by companies with "underappreciated resilience".
- The team is methodical and diligent in its credit research. They are prepared to take high conviction positions in names where they believe corporate resilience to be high. Equally, they are prepared to withstand the additional volatility that may result from this selective approach.
- The credit analysis is long term in nature and the portfolio construction and turnover are in keeping with this.

Key characteristics and expected outcome

- This is a best ideas fund, investing mainly in pan-European credit markets but also in opportunities globally.
- The team analyses and invests with a long-term mindset. They are prepared to take larger position sizes where their confidence is high. By the same token, they are prepared to exercise patience and weather price volatility when they have a clear picture of a company's resilience and sustainability.
- That said, they are alive to evolving market conditions, managing credit rating and sector exposures actively, as well as adjusting the balance between 'core' and 'opportunity' holdings in order to benefit from short-term value opportunities offered by market dislocations.
- Therefore, investors should invest with a long-term mindset and be prepared to tolerate periods of drawdown. The high conviction nature of the approach also means that there is scope for the fund to display idiosyncratic behaviour when compared to peers and benchmarks.
- Investors who are concerned about relative risk and return may wish to blend the fund with a more index-aware offering.

Risk commentary

The fund's KIID Synthetic Risk and Reward Indicator (SRRI) is 4. This is a regulatory measurement that is, where possible, calculated from the volatility of its weekly performance over a five-year period. A score of 4 means the fund's historic volatility is between 5% and 10%.

The fund's risk score is in keeping with the sector. Given the concentrated portfolio and the team's focus on issuers and stock specifics, we would expect the fund to have periods of higher-than-average volatility. Different share classes could have differing SRRI scores.



Key Fund Facts

Inception Date:	30 November 2001
Manager(s) Since:	Arthur Milson (Jan 23) Faisal Islam (Feb 24)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	ICE BofA European Currency High Yield Constrained Index
IA Sector:	£ High Yield

Formal documentation, including the fund prospectus and the KIID, should be sought directly from the asset manager. A link to the asset manager's website can be found on the relevant fund page at fundresearchcentre.co.uk.

Fund Snapshot

A globally invested high yield bond fund with a bias to European credit markets. With fundamental credit analysis at its heart, it is managed with a long-term mentality and is fully invested in the team's best ideas. Within its sector, the fund features in our 'Global High Yield, High Conviction' category.

Investment Team

The fund is co-managed by Arthur Milson and Faisal Islam. Mr Milson joined in the firm in 2022, while Mr Islam joined in 2018. They work closely with Rob Baltzer, head of credit research. Messrs Milson, Islam and Baltzer are members of Baillie Gifford's well-resourced credit team, which combines high yield and investment grade capabilities, and is headed by Lesley Dunn. The team-members combine analysis and portfolio management responsibilities with sector responsibilities. They work closely with Baillie Gifford's equity teams.

Investment Philosophy

The team believes that, in the long run, investment outcomes for corporate bond investors are determined by a company's fundamental resilience. Furthermore, over shorter time periods, changing sentiment means that valuations can diverge from reasonable assessments of fundamental value. The team seeks to take advantage of such situations, building a portfolio of under-appreciated resilient businesses.

Investment Process

At the heart of the investment process is detailed credit analysis, which is informed by the global bond team's macroeconomic insights. The team seeks to identify underappreciated bonds that are trading below their view of fair fundamental valuations and which have identifiable catalysts that will trigger a market revaluation.

The team's credit research framework is designed to develop a clear forward-looking investment recommendation by building a comprehensive picture of a company's resilience. They believe resilient companies are those that have strong prospects, a competitive advantage, appropriate capital structures and are proactively managing material sustainability matters. For those bonds under discussion, the team undertakes a valuation assessment which explores the expected return outcomes. They seek to explicitly identify bull and bear cases for a proposed investment, as well as associated catalysts that would trigger such outcomes. This approach provides them with the confidence to hold larger positions in the most resilient companies and helps to limit the downside risk of the portfolio in aggregate. Ongoing monitoring of companies is a crucial part of the investment process and they have a special focus upon any deterioration in resilience. Credit "milestones" support the team's monitoring process, helping them to assess a company's progress with reference to the initial investment case.

Portfolio Construction and Risk Controls

The fund is invested mainly in pan-European high yield bonds but can invest globally. Emerging market bonds can also feature. Foreign currency holdings are hedged back to sterling. The portfolio is relatively concentrated, comprising 90-120 issuers. In constructing the fund, they use a "core" and "opportunities" framework. Bonds in the core part of the fund display greater stability of earnings and cash flows compared to equivalent peers. The team takes high conviction positions in these bonds, and they are typically long-term holdings. The higher turnover opportunities allocation provides the potential for high total returns through greater income generation and capital upside. This allocation includes thematic and event-driven positions, valuation opportunities resulting from short-term market dislocation and off-benchmark instruments.

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