

BAILLIE GIFFORD

London Borough of Tower Hamlets Pension Fund - DG

Report for the quarter ended
30 September 2014



Contents

01	Executive Summary
02	Commentary
06	Market Background
07	Performance
09	Portfolio Overview
10	Risk
11	List of Holdings
14	Holdings Update
15	Governance
19	Trading
25	Transactions
27	Valuation
28	Fund Reconciliation

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Online Reporting

You can access all your reports and other up-to-date portfolio information via our secure client extranet site
<https://clients.bailliegifford.com>



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Recycling.

Performance to 30 September (%)

	Fund	Base Rate +3.5%
Since Inception* (p.a.)	6.2	4.0
Three Years (p.a.)	7.9	4.0
One Year	7.8	4.0
Quarter	1.8	1.0

*22 February 2011

The Fund's objective is to outperform the UK base rate by at least 3.5% p.a. (net of fees) over rolling five year periods with an annualised volatility of less than 10%.
Source: StatPro, Baillie Gifford

Summary Risk Statistics (%)

Delivered Volatility	4.7
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Annualised volatility, calculated over 5 years to the end of the reporting quarter
Source: Baillie Gifford

Economic news in the third quarter was mixed - there were further positive developments in the job market and sentiment in the US, tempered by a weaker outlook in Europe, while growth in emerging markets continued to slow

Monetary policy has started to diverge, with the ECB cutting rates and embarking on a programme to buy private-sector assets just as the Fed brings its QE efforts to a close

Investment markets have been mixed with emerging markets (bonds and equities) performing reasonably well while high yield credit and European equities struggled - against this backdrop the Fund delivered a positive return



Valuation (after net flow of GBP 17,699)

30 June 2014
GBP 47,945,184

30 September 2014
GBP 48,767,644

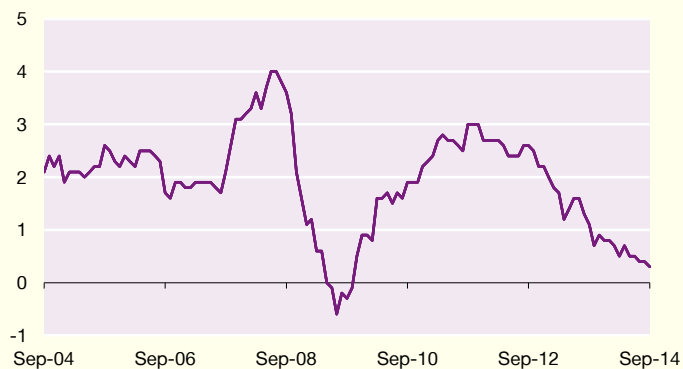
Investment environment

Data releases from the major developed economies have contrasted sharply over the summer months, with the US continuing to show a solid pick-up in activity and employment whilst Europe appears to be suffering from a downturn in confidence and growth.

In particular, the US looks to be on course for a respectable growth of between 2% and 2.5% with inflation around the 2% target level. Surveys of consumer and corporate sentiment are generally positive and improving with payrolls increasing, claims falling and the unemployment rate declining to just under 6%, a level that has been said to be one of the key triggers for rate rises.

In contrast, Europe continues to flirt with deflation. Much of the periphery and Eastern Europe is already seeing stagnant or falling prices, whilst even Germany is seeing notable falls in producer prices. Overall, Eurozone CPI is running at 0.5% (see chart below). Additionally, unemployment is high and sticky (between 11% and 12%) and consumer confidence surveys remain negative and falling.

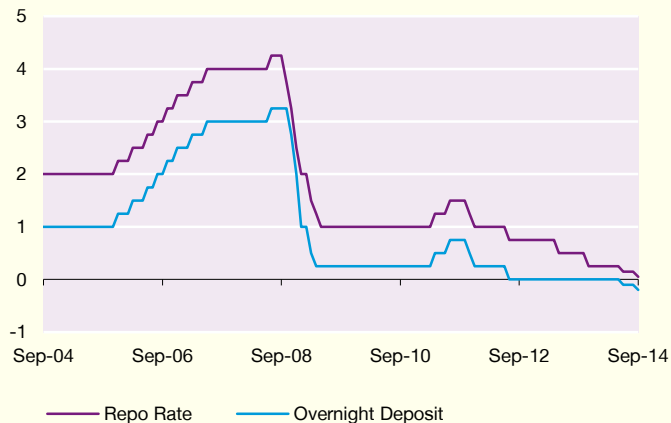
Eurozone Inflation Annual % Change (HICP)



Source: Thomson Reuters Datastream

Given this backdrop, we have seen central bank activity diverge: as the Federal Reserve announced the end of quantitative easing in the US, so the European Central Bank cut its policy rate further (see chart below) and embarked on a new ABS-buying programme of its own, aiming to buy up to €500 billion of structured finance securities, including those backed by residential mortgages.

ECB Interest Rates (%)



Source: Thomson Reuters Datastream

Elsewhere, both the UK and Japan continue to progress. The UK looks likely to raise rates before the US, with two of the MPC's nine members already voting for hikes; whilst Japan is still working through implementing Shinzo Abe's reform programme, with mixed results so far.



In emerging markets, growth continues to slow, albeit the picture varies country by country. Turkey, Russia and South Africa remain weak. And the Latin American countries, to which we have direct bond exposure, also saw further slowdowns as a combination of economic and political reforms and a weaker export environment made temporary impacts on both growth and inflation. However, the Asian countries, to which we recently took a small direct equity exposure, had a much stronger quarter, notably India following on from Modi's election in May.



Finally, a number of geopolitical risks made, or remained in, the headlines over the period. Unrest in Ukraine, Iraq and Syria continued, albeit with no immediate impact on asset prices, whilst protests in Hong Kong at the end of the quarter brought substantial new concerns and saw its equity market fall by almost 10%.



Closer to home, we also saw the independence referendum in Scotland return a 'No' vote by a slim margin. The vote had worried markets in the final weeks of campaigning with both sterling and the FTSE All Share weakening. However, the vote to maintain the status quo removed that uncertainty and saw both bounce back strongly.

Outlook

Whilst we are encouraged by the improvements in economic data in parts of the developed world, we remain concerned about financial market stability, particularly as quantitative easing is removed and interest rates begin to rise.

Looking at the past few years, we see many asset prices that have run ahead of their fundamentals. We put this outperformance down, in large part, to the highly accommodative monetary policy environment. Naturally then, as this begins to be tightened and this critical support is removed, we worry that some of these assets may look very exposed.

Nevertheless, the improving economic fundamentals of countries like the US do give grounds for cautious optimism and the falls in correlations both between and within asset classes that we have seen over the past year create more fertile ground in which to hunt for opportunities. So, whilst Japanese equities, emerging market bonds and insurance linked securities have continued to rise in value over the past three months, US high yield bonds, European equities and gold are amongst those asset classes that have seen price falls.

Positioning

Given our overall outlook, in particular the concerns around stretched valuations and the rate rise cycle ahead, we continue to position the portfolio cautiously, with holdings in more defensive securities such as T-Bills and AAA Structured Finance.

In particular, seeing higher valuations, we sold our European financial credit holdings and made reductions to both Private Equity and Commodities. We also took the opportunity to tilt our Listed Equity and Emerging Market Bond holdings more towards the markets we consider cheaper and make additions to highly-rated Structured Finance.

The change in our Listed Equity holdings involved a small reduction to our global fund holdings (which gave us a substantial exposure to the US, the regional equity market we view as being most expensive) and taking new direct positions in Emerging Asia (via the Baillie Gifford Pacific Fund) and in Japan (via the BG Worldwide Japanese Fund) where we view valuations and structural growth opportunities as more attractive.

We also increased our exposure to Eurostoxx 50 Dividend Futures, which are typically less volatile than regular listed equities and still forecast flat or falling dividend payments over the coming years.

Performance

The Fund generated a return of 1.8% over the third quarter of 2014, leading to a 7.8% return over the past 12 months. The annualised return for the past five years is 8.7% with a realised volatility of 4.7% per annum (all performance numbers are quoted before fees).

Across the past three months, the largest contributors to performance have been our Active Currency positions, in particular our short Australian dollar hedge position, which added 0.4% alone to performance as the currency fell 7.3% on Chinese growth concerns, as well as Insurance Linked Securities and Property.

Diversified Growth Client Seminars

We look forward to seeing many of you at our Client Seminars in November.

Special paper – Active Currency overlay

One feature of the Diversified Growth Fund that we have not covered in previous papers is our Active Currency overlay, which is an important part of our investment efforts.

Whilst most attention focuses on the broadly diversified range of assets that the Diversified Growth Fund holds, our currency investments also form an important component of the Fund's return profile. In fact, over the past five years, currency exposures taken via our Active Currency overlay have contributed 0.5% per annum to the overall Fund performance. We regard this as a valuable source of additional return, particularly as its drivers are different to those of equities and the other economically-exposed asset classes in which we invest.

We believe returns can be generated in this area as, despite their liquidity and high turnover, global currency markets are not as efficient as might be expected. This is because many participants deal in currencies for reasons other than to maximise profits – for example, to hedge their own exposure or for commercial trade purposes – and this presents a number of opportunities.

The overlay, which is managed by Baillie Gifford's specialist Rates & Currencies team, takes a series of offsetting long and short positions across currencies. It currently aims to deliver a return of 0.5% per annum, with a volatility of 1%. This return stream is typically uncorrelated with returns from other asset classes in the portfolio, and hence the Fund benefits fully from the return but with only a marginal increase in overall volatility.

The individual positions within the overlay are entered by using currency forwards, typically up to three months in length. These instruments do not require physical transfer of cash as each involves a promise to pay any profits owed at the end of the contract, depending on how the currencies in question have performed. These profits are always backed by collateral. Because the positions do not involve cash, however, and because long and short positions offset, they have no physical weight in the Fund and appear on our main asset allocation chart at 0%.

Currently the Fund's most significant long positions are to the US dollar, Mexican peso and Colombian peso, whilst our most significant short positions are against the Czech koruna, Thai baht and Hungarian forint.

Below we set out the investment rationale for two current trades.

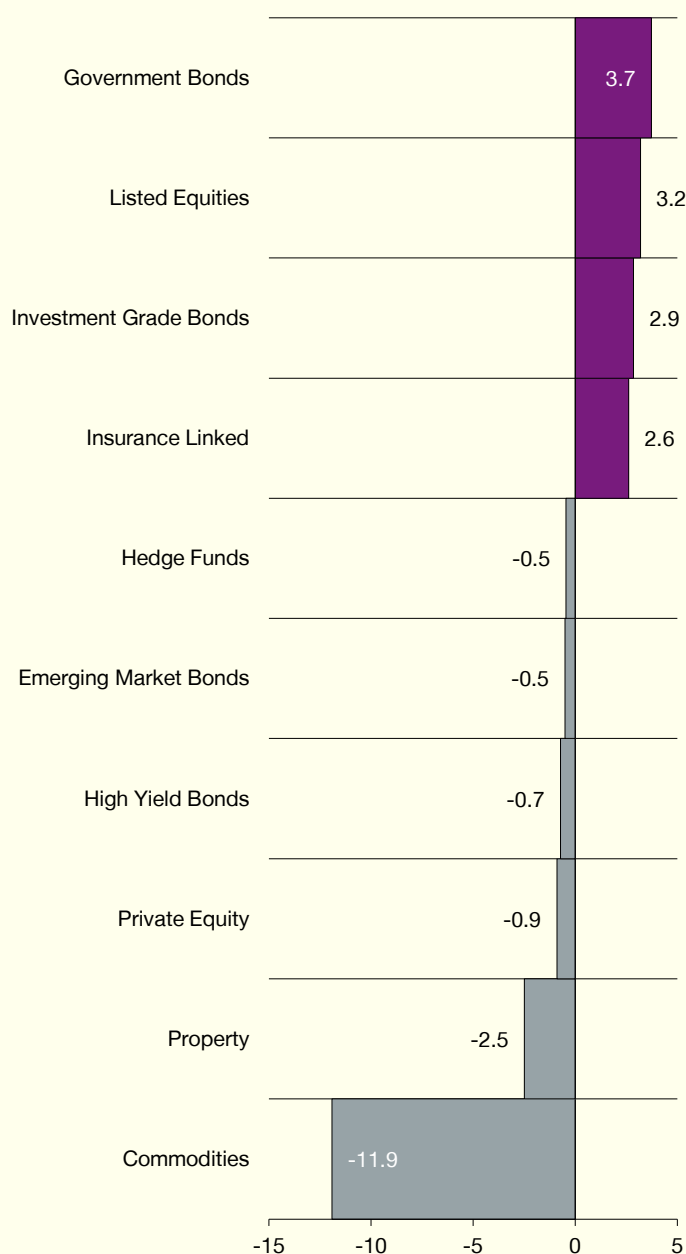
Trade:	Long US Dollar (USD) vs. Euro (EUR)
Rationale:	The US is growing more strongly than Europe, which is also flirting with deflation. That growth (and associated tighter policy) will be good for the USD vs. EUR.

Trade:	Long Colombian Peso (COP) vs Peruvian New Sol (PEN)
Rationale:	The PEN is vulnerable to falls in the copper price, and deteriorating terms of trade for Peru, as Asian growth slows. Peruvian GDP is under pressure. Colombia, meanwhile, is more geared into the US and is also benefiting from increased domestic demand and infrastructure stimulus following May's election of Juan Manuel Santos.

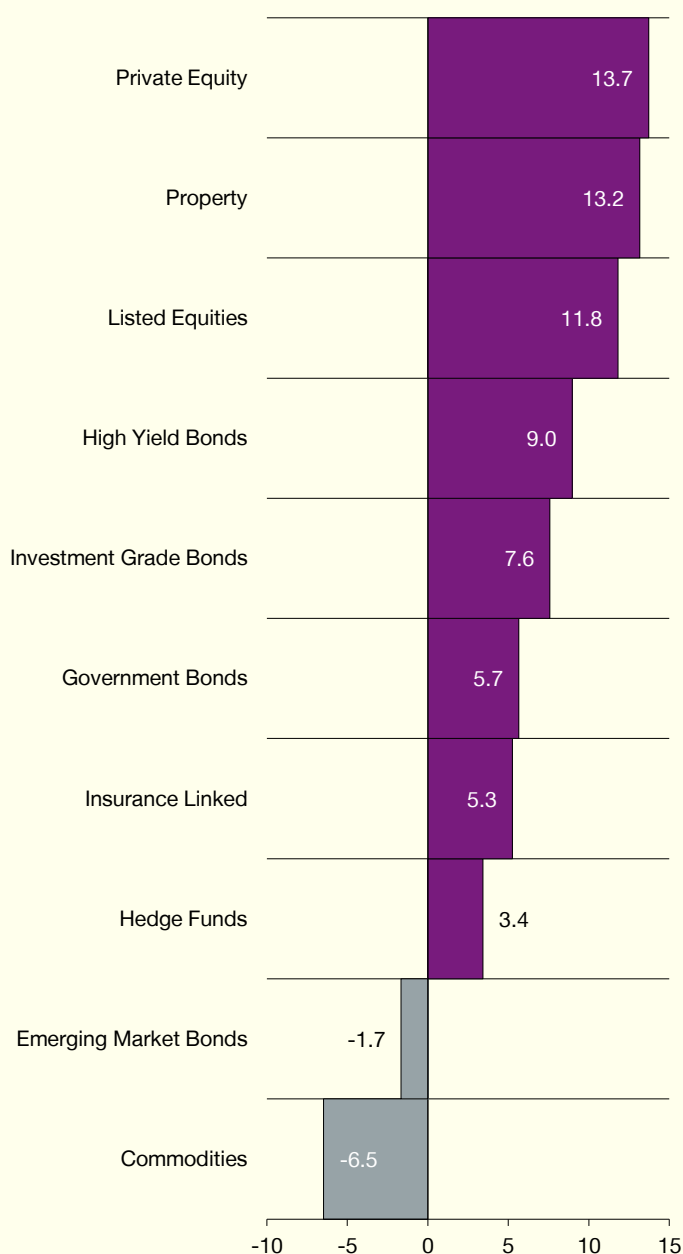
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Market Background - Asset Class Returns

Over One Quarter (%)



Over One Year (%)



% Change in GBP
Source: Baillie Gifford

Performance Objective

To outperform the UK base rate by at least 3.5% per annum (net of fees) over rolling five year periods with an annualised volatility of less than 10%.

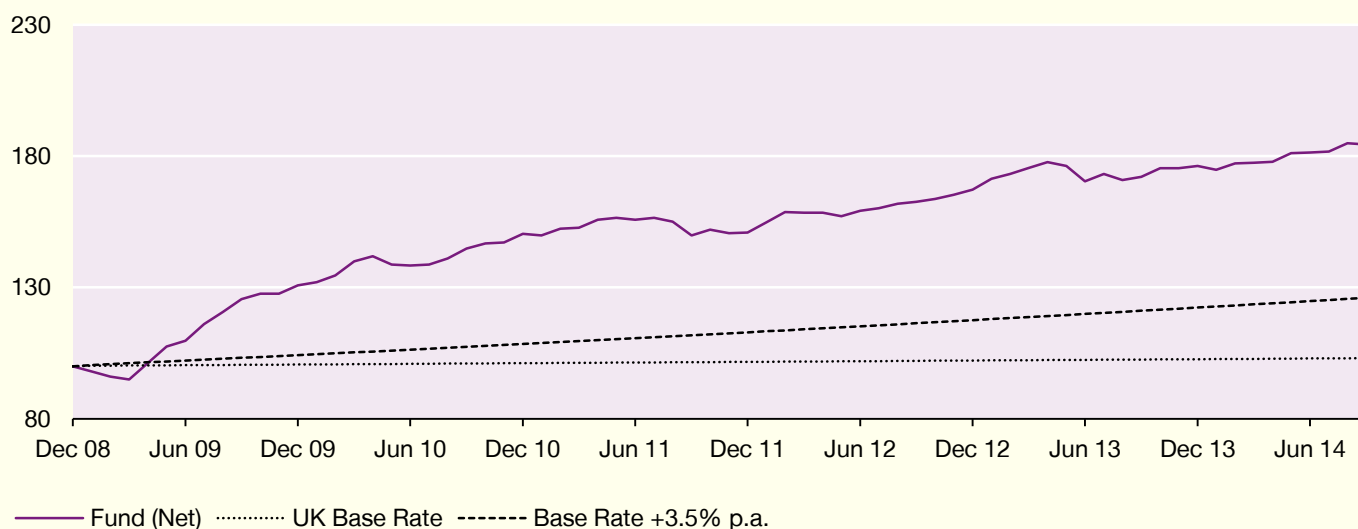
Performance

This table indicates the absolute performance of the fund after fees together with UK base rate.

	Fund Net (%)	Base Rate (%)	Base Rate (%) +3.5%
Five Years (p.a.)	8.0	0.5	4.0
Three Years (p.a.)	7.2	0.5	4.0
One Year	7.1	0.5	4.0
Quarter	1.7	0.1	1.0

Source: StatPro, Baillie Gifford

Fund and UK Base Rate Returns Since Launch of the Fund*



*31 December 2008

Source: StatPro, Baillie Gifford. All figures are total returns in sterling from 31/12/08, net of fees.

Summary Risk Statistics (%)

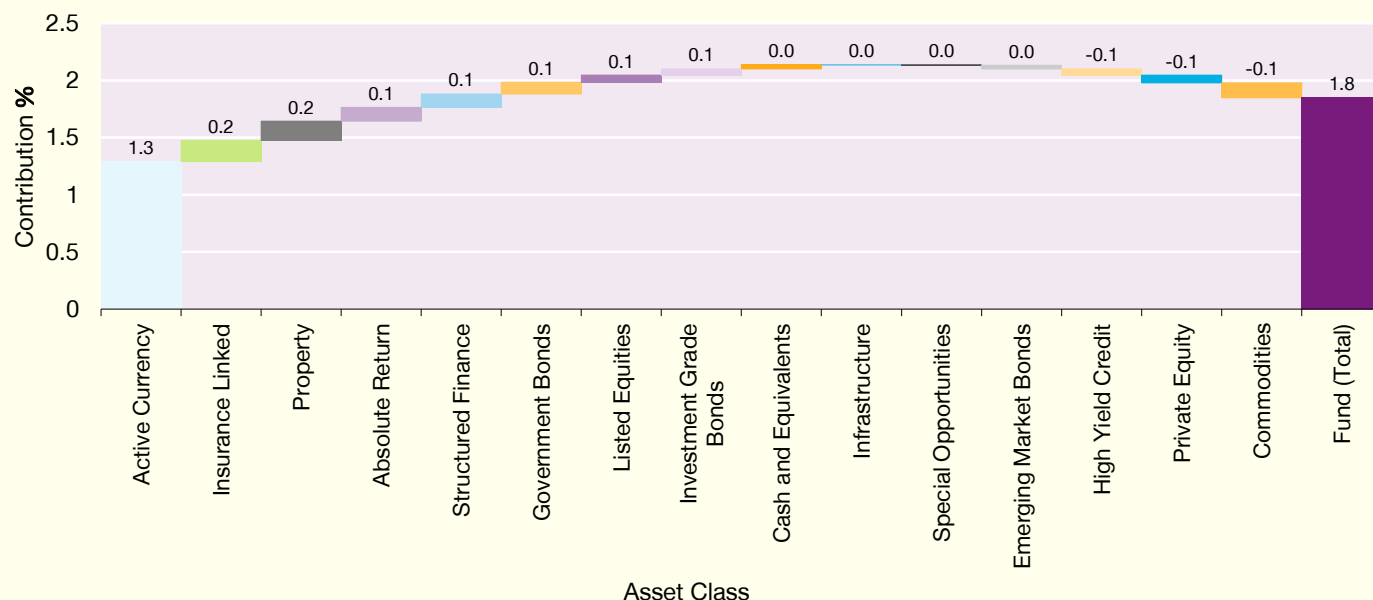
Delivered Volatility 4.7

Annualised volatility, calculated over 5 years to the end of the reporting quarter

Source: Baillie Gifford

Contributions to Performance

Quarter to 30 September 2014



Ave. Weight %	0.1	4.8	2.1	7.7	12.7	4.1	16.8	8.7	6.4	4.4	0.6	13.6	10.0	2.2	5.8	100.0
Return %	1.3	3.8	7.8	1.4	0.7	1.6	0.0	0.3	0.6	-0.2	-0.6	-0.6	-0.7	-2.9	-3.7	1.8

One Year to 30 September 2014

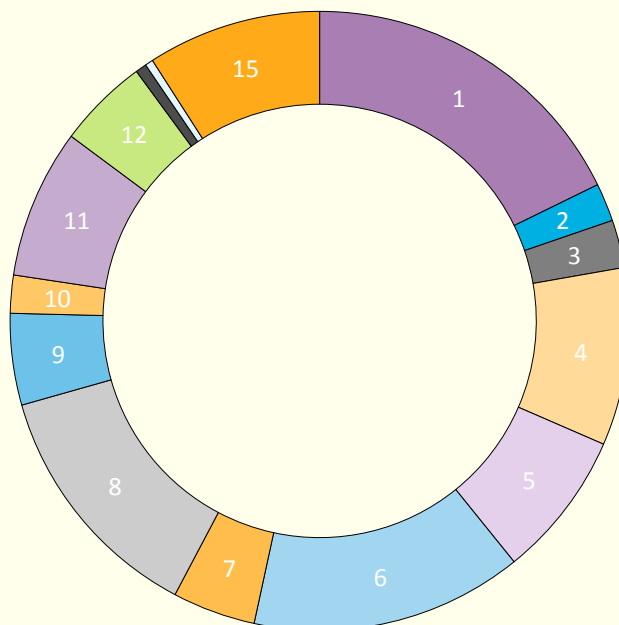


Ave. Weight %	16.0	0.1	10.8	11.3	8.6	13.0	2.0	3.9	5.5	2.7	5.0	6.3	8.6	0.6	5.6	100.0
Return %	11.1	1.3	7.3	5.6	7.9	3.7	26.6	12.2	7.4	10.3	4.1	1.7	0.9	4.4	-2.3	7.8

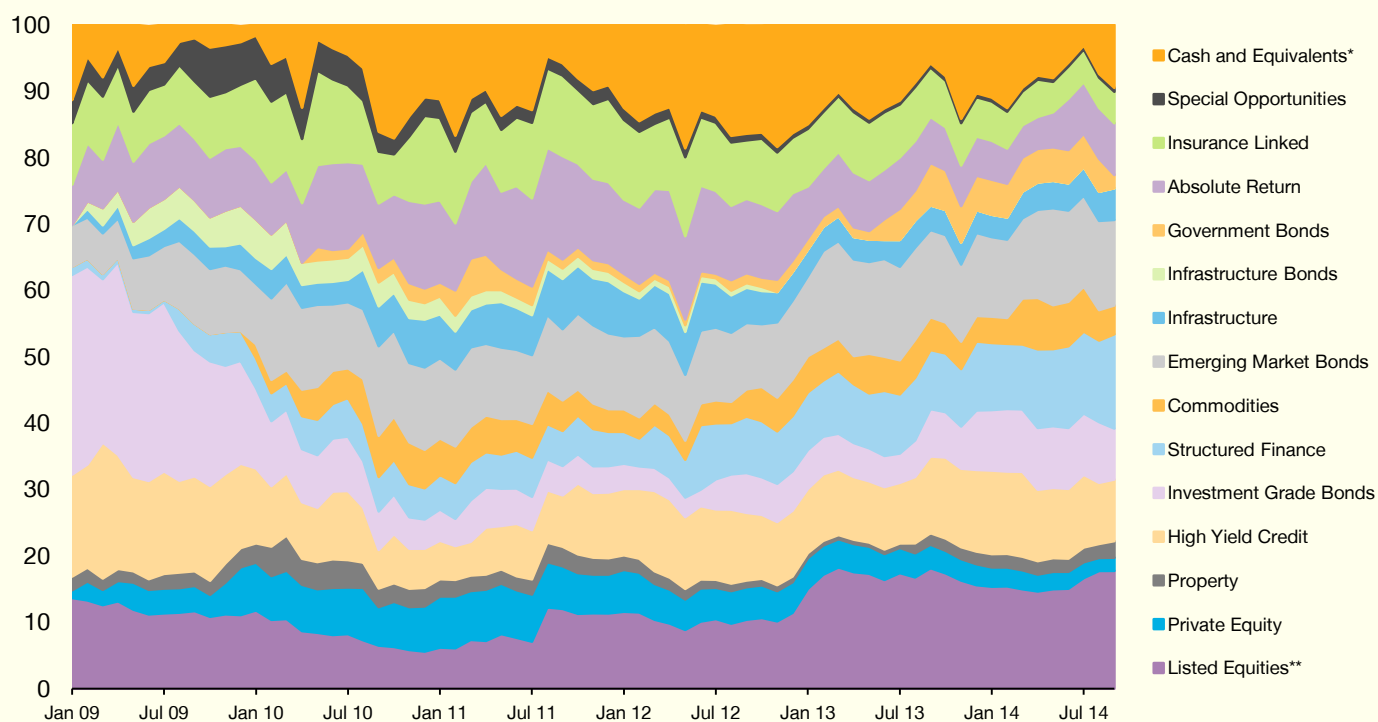
Source: Statpro/Baillie Gifford, gross of fees in sterling. Totals may not sum due to rounding

Asset Allocation at Quarter End

	(%)
1 Listed Equities**	17.7
2 Private Equity	2.0
3 Property	2.5
4 High Yield Credit	9.3
5 Investment Grade Bonds	7.7
6 Structured Finance	14.2
7 Commodities	4.3
8 Emerging Market Bonds	12.9
9 Infrastructure	4.8
10 Government Bonds	2.0
11 Absolute Return	7.8
12 Insurance Linked	4.7
13 Special Opportunities	0.6
14 Active Currency	0.4
15 Cash and Equivalents	9.1
Total	100.0



Changes in Asset Allocation Since Launch of the Fund† (%)



† 30 December 2008

* Includes net Active Currency position

** Reflects effective exposure in portfolio, including futures positions; cash adjusted accordingly

Summary Risk Statistics (%)

Predicted Volatility	6.2
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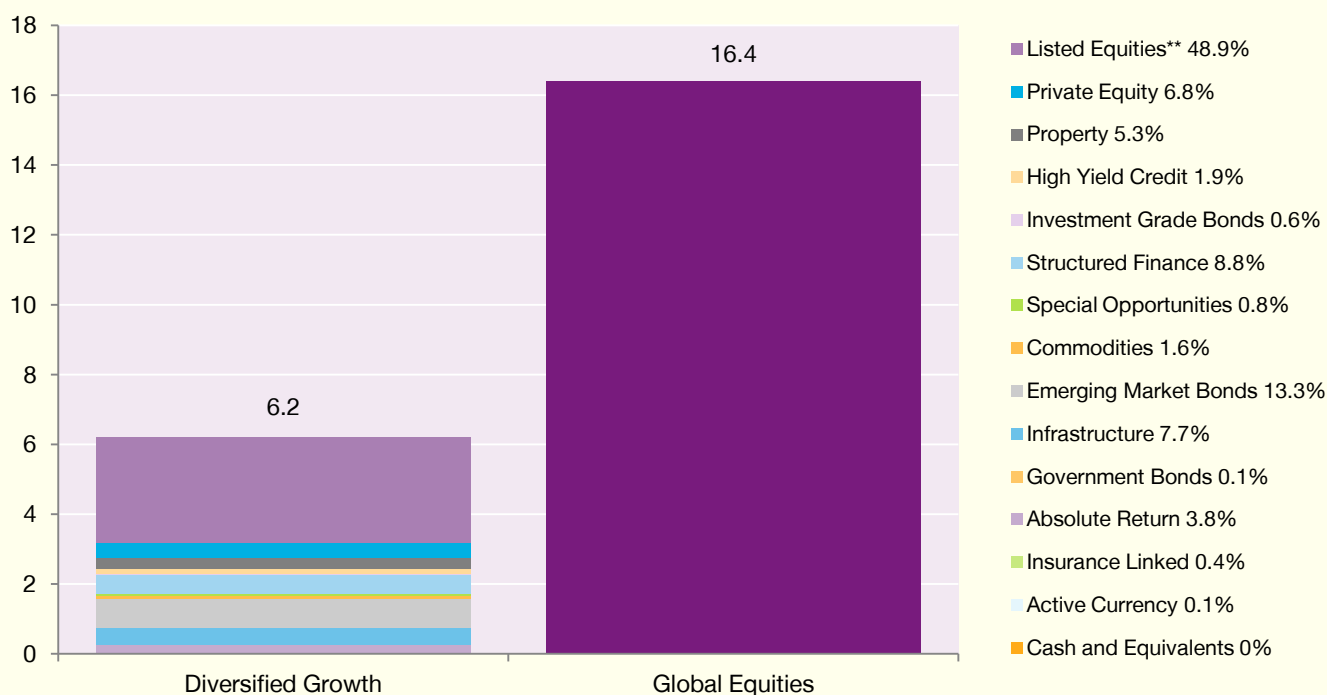
Source: Baillie Gifford, Moody's Analytics UK Limited

Volatility remained fairly low in the quarter, notwithstanding market concerns over developments in Ukraine, the Middle East and, closer to home, the Scottish independence referendum

The Fed continued to taper its QE programme, signalling an expected end in the fourth quarter, and the market is now looking forward to rate rises and digesting what that might mean for a number of asset classes that have benefited from the accommodative policy of the past few years

Given concerns over the withdrawal of stimulus and the valuations of some asset classes, the portfolio remains broadly diversified and fairly cautiously positioned

Risk Attribution



Source: Moody's Analytics UK Limited, Baillie Gifford & Co

Total may not sum due to rounding

** Reflects effective exposure in portfolio, including futures positions; cash adjusted accordingly

Predicted volatility is based on a snapshot of the Diversified Growth portfolio at the end of the quarter, and provides a one-year prediction of the volatility of returns. The risk model uses long- and short-term volatility and correlation data to arrive at a view of the one-year volatility for each asset class, as well as the correlation between each asset class. The Diversified Growth portfolio's holdings can then be mapped onto these estimates. The results are a prediction of portfolio volatility and detailed risk attribution, the latter of which shows the contribution to overall volatility from each asset class.

List of Holdings
Baillie Gifford Diversified Growth Pension Fund

Report for the quarter ended 30 September 2014 11

Asset Name	Fund %
Listed Equities**	
Baillie Gifford Global Income Growth Fund C Accum	4.9
Baillie Gifford Global Alpha Growth Fund C Acc	4.2
Baillie Gifford Pacific Fund C Accum	2.0
Baillie Gifford LTGG Fund C Accum	1.8
BG Worldwide Japanese C GBP Acc	1.0
Euro Stoxx 50 Index Dividend Futures 16	0.6
Euro Stoxx 50 Index Dividend Futures 17	0.6
Euro Stoxx 50 Index Dividend Futures 15	0.6
Euro Stoxx 50 Index Dividend Futures 18	0.6
Fondul Proprietatea	0.6
Euro Stoxx 50 Index Dividend 19	0.5
Euro Stoxx 50 Index Dividend 20	0.4
Damille Investments II	0.0
Total Listed Equities	17.7
Private Equity	
Electra Private Equity	0.4
Graphite Enterprise Trust	0.3
NB Private Equity Partners	0.3
HarbourVest Global Private Equity	0.2
Eurazeo	0.2
Better Capital	0.2
JZ Capital Partners	0.1
Better Capital 2012	0.1
Dunedin Enterprise Investment Trust	0.1
Electra Convertible 5% 2017	0.1
Total Private Equity	2.0
Property	
Deutsche Wohnen	0.7
LEG Immobilien	0.6
Hammerson	0.4
LondonMetric Property	0.2
Tritax Big Box REIT	0.2
Target Healthcare REIT	0.1
Japan Residential Investment Company	0.1
Forterra Trust	0.1
Terra Catalyst Fund	0.0
Invista 9% 2016 Pref	0.0
Max Property Group	0.0
Total Property	2.5

Asset Name	Fund %
High Yield Credit	
Baillie Gifford High Yield Bond Fund C Gross Acc	2.7
Credit Suisse Nova (Lux) Global Senior Loan Fund	1.6
Henderson Secured Loans Fund	1.5
ING (L) Flex Senior Loans Fund	0.9
NB Global Floating Rate Income Fund	0.5
NB Distressed Debt Invest F NPV	0.4
Nuveen Floating Rate Income Fund	0.3
Eaton Vance Floating Rate Income Trust	0.3
BlackRock Floating Rate Income Trust	0.2
CVC Credit Partners European Opportunities GBP	0.2
Apollo Senior Floating Rate Fund	0.1
Nuveen Senior Income Fund	0.1
Eaton Vance Senior Income Trust	0.1
CVC Credit Partners European Opportunities EUR	0.1
Pioneer Floating Rate Trust	0.1
HarbourVest Senior Loans Europe	0.0
Total High Yield Credit	9.3
Investment Grade Bonds	
BG Worldwide Global Credit C USD Acc	6.1
EIB 1.375% 2018	1.6
Total Investment Grade Bonds	7.7
Structured Finance	
Metreta Fund	3.2
Julius Baer Multibond ABS Fund	3.0
Galene Fund	3.0
TwentyFour Income Fund	0.4
Sorrento Park CLO A-1	0.4
German Residential Funding 2013-1 D	0.4
United Airlines 2013-1 B	0.3
DNA Alpha 2013-1 A	0.3
American Airlines 2013-2 A	0.3
DNA Alpha 2013-1 B	0.3
American Airlines 2013-2 B	0.3
Carlyle CLO 2014-3 A-1A	0.3
Phoenix Park 1X A1	0.2
Annington PIK 13% 2023	0.2
St Pauls CLO V A	0.2
Blackstone/GSO Loan Financing Fund	0.2
Granite 2007-1 3M2	0.2
Virgin Australia 2013-1 A (144A)	0.2

List of Holdings
Baillie Gifford Diversified Growth Pension Fund

Report for the quarter ended 30 September 2014 12

Asset Name	Fund %
Virgin Australia 2013-1 B (144A)	0.2
Carador Income Fund	0.2
German Residential Funding 2013-1 E	0.1
Granite 2007-1 6A1	0.1
Taberna 2005-1A A1A	0.1
Phoenix Park 1X A2	0.1
Sorrento Park CLO A-2	0.1
St Pauls CLO V B	0.1
Talisman 7 A	0.0
Carlyle CLO 2014-3 A-2A	0.0
Leopard II A2	0.0
Total Structured Finance	14.2

Commodities

Source Physical Gold P-ETC	2.5
Source Physical Palladium P-ETC	0.7
Source Physical Platinum P-ETC	0.7
ETFS Physical Palladium	0.4
Total Commodities	4.3

Emerging Market Bonds

Baillie Gifford Emerging Mkts Bond Fd C Gross Acc	8.3
Brazil CPI Linked 6% 15/05/2045	1.0
Brazil CPI Linked 6% 15/08/2050	0.5
Mexico 7.75% 13/11/2042	0.5
Mexico 8.5% 18/11/2038	0.5
Mexico IL 4% 15/11/2040	0.4
Peru 6.85% 12/02/2042	0.4
Colombia 10% 24/07/2024	0.4
Peru 6.95% 12/08/2031	0.2
Colombia 7.5% 26/08/2026	0.2
Peru 6.9% 12/08/2037	0.2
Afreximbank 5.75% 2016	0.2
Colombia 7% 04/05/2022	0.1
Total Emerging Market Bonds	12.9

Infrastructure

3i Infrastructure	0.8
EDP Renovaveis	0.5
Renewables Infrastructure Group	0.4
National Grid	0.3
Greencoat UK Wind	0.3
John Laing Environmental Assets Group	0.3

Asset Name	Fund %
American Water Works	0.3
California Water Service	0.2
American States Water	0.2
Terna	0.2
Aqua America	0.2
OHL México	0.2
Snam Rete Gas	0.2
Foresight Solar Fund	0.2
Bluefield Solar Income Fund	0.2
NextEnergy Solar Fund	0.2
Total Infrastructure	4.8

Government Bonds

Australia 5.5% 21/04/2023	1.6
Australia 5.75% 15/05/2021	0.4
Total Government Bonds	2.0

Absolute Return

Allianz Merger Arbitrage Strategy	3.0
Aspect Diversified Trends Fund	1.9
Amundi Volatility World Equities	1.0
Ferox Salar Convertible Absolute Return Fund	0.9
Winton Futures Fund	0.5
DB Hermes Absolute Return Commodity Fund	0.3
Boussard & Gavaudan	0.2
Total Absolute Return	7.8

Insurance Linked

Everglades Re 2014-1 A	0.8
Tar Heel Re 2013-1 A	0.6
Everglades Re 2013-1 A	0.4
Alamo Re 2014-1 A	0.4
Lakeside Re III A	0.4
Embarcadero Re 2012-2 A	0.4
CatCo Reinsurance Opportunity Fund	0.3
Pelican Re 2012-1 A	0.2
Embarcadero Re 2012-1 A	0.2
Mystic Re III A	0.2
East Lane Re V 2012 B	0.1
Blue Capital Reinsurance Holdings Fund	0.1
Blue Capital Global Reinsurance Fund	0.1
Tradewynd Re 2013-2 3B	0.1
MultiCat Mexico 2012-1 B	0.1

List of Holdings
Baillie Gifford Diversified Growth Pension Fund

Report for the quarter ended 30 September 2014 13

Asset Name	Fund %
Compass Re 2011-1 3	0.1
Skyline Re 2014-1 A	0.1
DCG Iris Fund	0.0
K1 Life Settlement	0.0
Total Insurance Linked	4.7
Special Opportunities	
Juridica Investments	0.2
Burford Capital	0.1
DP Aircraft I	0.1
Doric Nimrod Air Two	0.1
Total Special Opportunities	0.6
Active Currency	
Total Active Currency	0.4
Cash and Equivalents	
Cash and UK T Bills	7.1
BG Worldwide Active Cash Plus Fund C Acc	2.0
Total Cash and Equivalents	9.1
Total	100.0

** Reflects effective exposure in portfolio, including futures positions; cash adjusted accordingly

Fund Name	Update
Baillie Gifford Diversified Growth Fund	<p>With no substantial changes to the global economic picture or individual asset class valuations, the Fund's asset allocation remained fairly stable over the third quarter of 2014. We made some small adjustments reflecting the outperformance of certain assets and the balance of opportunities. In particular, we increased our exposure to structured finance and certain equity markets, reduced our exposure to various developed bond markets and commodities. In aggregate, the value of our sales exceeded that of our new investments, seeing us increase the Fund's cash weighting to around 9%. We view this as an appropriate level given our concerns around the headline valuations of many asset classes at a time when monetary policy is becoming less accommodative.</p> <p>The investments into Structured Finance included a number of direct senior CLO positions (in deals such as St Paul's and Sorrento) as well as an addition to our holding of the Julius Baer Multibond ABS Fund. Whilst the returns on offer from senior structured finance are not large in absolute terms, we view them as exceptionally good for the risks involved, and particularly worthwhile given our overall economic view. We also took a new position in a Blackstone/GSO Loan Financing fund that invests at the more junior end of the CLO spectrum.</p> <p>Whilst we added 2% to our Listed Equity allocation, the more significant change was to the balance of the Fund's holdings within the asset class. We reduced our position in our global equity funds (which are heavily invested in the US) and brought in new holdings that give specific exposure to Asia (BG Pacific Fund, 2%) and Japan (BG Worldwide Japanese Fund, 1%). Relative to the US, these markets have struggled in recent quarters and, with lower valuations and positive fundamentals, seem well placed to perform better from here. We also took the opportunity to top up the Fund's exposure to European dividends.</p> <p>In bond markets, we took profits from our UK Gilt and European Investment Bank holdings following strong performance. We also sold our direct holding of European financial bonds, which we thought had limited value remaining. Since those sales, high yield credit spreads have begun to rise, although not yet to yields which would compel us to return to the market. The Fund does, however, remain invested in bank loans, with a 6% weighting in third party bank loan funds.</p> <p>In August, we halved our exposure to platinum and palladium, reflecting the good run in prices on the back of the miners' strike in South Africa. These holdings now represent 2% of the Fund. We continue to believe that these metals are underpriced relative to their cost of production, just less so than when we first took the position.</p> <p>Other notable transactions over the quarter included the sale of Onex, a Canadian private equity fund, which had begun to trade on a premium to its net asset value; the purchase of EDP Renovaveis, a Portuguese renewable energy operator which trades at an unwarranted discount to its net asset value; and a reduction to our holding of Peruvian bonds following a rate cut, with some of the funds raised being invested into Colombian bonds, which look relatively better value.</p>

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	16	Companies	2	Companies	None
Resolutions	162	Resolutions	4	Resolutions	None

There has been notable regulatory change in the UK, Japan and Europe

Within Europe, the EU Commission is proposing changes to the 2007 Shareholder Rights Directive in order to bring greater clarity to the investment chain. With regard to the UK, the Financial Reporting Council (FRC) has published a new edition of the UK Corporate Governance Code. Japan's first Stewardship Code, which we became signatories of in August, aims to promote long-term sustainable returns

We are currently adding to the Corporate Governance team's resources by recruiting new analysts

Company Engagement

Engagement Type	Company
Corporate Governance	Kubota Corp. , Rakuten
Corporate Social Responsibility	Haier Electronics Group Co
AGM or EGM Proposals	John Laing Environmental Asset

Notes on company engagements highlighted in blue can be found in this report. Notes on other company engagements are available on request.

Following a demanding proxy voting season, the broader themes affecting the governance landscape this quarter have been the development of new and existing governance codes both at home and abroad. Whilst the outcome of the Scottish independence referendum has meant business continues as usual, there has been notable regulatory change in the UK, Japan and Europe.

With regard to the UK, the Financial Reporting Council (FRC) has published a new edition of the UK Corporate Governance Code which is designed to strengthen the focus of companies and investors on the long term and the sustainability of value creation. The main changes relate to risk management, shareholder engagement and, as always, executive remuneration. First, the FRC will request that companies robustly assess their principal risks and explain how they are being managed and mitigated. Second, on executive pay, the FRC has decided to codify malus provisions – this is already standard practice – empowering remuneration committees to recover or withhold variable pay awards if corporate health suffers over the long term. Third, the FRC hopes to promote shareholder engagement by requiring Boards to explain what actions they will take to understand and respond to significant “oppose” votes at any general meeting. The revised Code will apply to accounting periods on or after October 1 2014.

The direction of travel for Japanese governance continues to be positive, with recent momentum starting to deliver some significant changes from a regulatory perspective. The country’s first Stewardship Code, of which we became signatories in August, aims to promote long-term sustainable returns by supporting purposeful dialogue between investors and companies. In addition, a new Corporate Governance Code is currently being developed and it is hoped that it will be in place for next year’s voting season.

Although the old adage “I was waiting ages for a Code and then two came along at once” springs to mind, we do not expect an overnight change in governance standards. In fact, the required evolution in cultural and behavioural approaches to governance in Japan will be a much more difficult and important step to ensuring better practices and protection for shareholders.

Accordingly, it was encouraging that during our colleague Rachel Turner’s September trip to Tokyo with the Asian Corporate Governance Association (ACGA), several of our investee companies reported seeing benefits from increased engagement with investors and electing independent board members, both of which are central components of the new Stewardship and Corporate Governance Codes.



Within Europe, the EU Commission is proposing changes to the 2007 Shareholder Rights Directive in order to bring greater clarity to the investment chain. In addition to providing shareholders with a right to vote on executive remuneration and related party transactions, the amendments will look to increase transparency between companies, shareholders and relevant intermediaries. In particular, the Directive will facilitate the identification of shareholders, transmission of information and the exercise of shareholder rights by obliging intermediaries, such as institutional investors and custodians, to provide specific information on the identity of the underlying shareholder. They will also need to ensure appropriate arrangements are in place to accommodate shareholders’ right to participate and vote in general meetings.

The inclusion of these new items in each region’s governance regulations should be viewed as positive. However, it is important to remember that compliance with regulatory requirements and exercise of proper stewardship are not one and the same. As ever, the challenge for the Governance team is not only identifying and engaging with those investee companies which do not comply with the letter of the their respective Codes, but those that fail to endorse their spirit too.

In order to meet this challenge head-on, we are currently adding to the team’s resources by recruiting new analysts. The addition of new personnel will help to supplement the knowledge and experience already within the team, as well as enabling us to improve the level of service we provide to the investment managers.

We are conscious that this quarter’s review has centred on topics with particular relevance to governance as opposed to environmental and social issues. In the next quarter, we will be looking more closely at climate change and supply chain management and look forward to providing a more balanced overview of this work come the year end.

Company	Engagement Report
Haier Electronics Group Co	<p>Haier Electronics is a Chinese company that makes washing machines and water heaters and, maybe most interestingly, has an extensive logistics business. Disclosure on all ESG matters is extremely limited. Both the Corporate Governance team and the portfolio manager spoke to the company. The company has informed us that, despite the lack of disclosure, it is thinking about non-financial issues. Its reporting on ESG factors will be increasing in the next interim and annual reports and we look forward to continuing the dialogue.</p>
Kubota Corp.	<p>Kubota is a Japanese producer of agricultural equipment, mini-excavators and ductile iron piping. The company is aware of the changing emphasis on Corporate Governance in Japan and appeared keen to understand more about the impact of this. The Board now includes two independent outside directors whose contribution to discussions is considered invaluable. Being able to explain and justify proposals to outside directors has focused the business, and the outside directors will oppose those they feel are not in its best interests. As the company looks to expand into additional markets, it admits that more effort will be required to ensure issues such as labour conditions are in line with its requirements. Kubota also acknowledges that expansion creates a big challenge in terms of pay structures and incentivising employees globally. The company is also thinking about the effect agriculture has on the environment but hopes that through efficient farming products it can play a part in minimising damage. This was a helpful meeting that allowed us to establish an open and honest dialogue with the company which should facilitate further constructive engagement.</p>
Rakuten	<p>Rakuten is a Japanese e-commerce company. We recently took the opportunity to meet the company in Tokyo to gain a better understanding of the internal workings of the business and the challenges it faces. The inclusion of outside directors at Board meetings has led to increased scrutiny of decision making and greater consideration of the proposals being brought before the Board. The current statutory auditor structure is working but in the long term the company will consider a change if this is right for the business, most likely the addition of a nomination committee. Quality, safety and legality of product content are high on the agenda. Products are screened to identify any areas of concern and merchants may be removed from the platforms if Rakuten believes they are not up to standard. The company has accusations from environmental groups of inappropriate sales of whale and ivory products. Rakuten explained that after the ruling by the International Court of Justice, it no longer facilitates sales of whale products. The majority of ivory products sold are of a historical nature and merchants must have a special licence. This was a helpful meeting in terms of deepening our understanding of the business and continuing to strengthen our relationship.</p>

Votes Cast in Favour

Companies	Voting Rationale
3i Infrastructure, Better Capital, BlackRock Floating Rate Income Trust, Boussard & Gavaudan, DCG Iris Fund, Fondul Proprietatea, Galene Fund, John Laing Environmental Assets Group, LondonMetric Property, Max Property Group, NB Distressed Debt Extended Life Shares, National Grid, Pioneer Floating Rate Trust, Target Healthcare REIT, Terra Catalyst Fund, TwentyFour Income Fund	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
Fondul Proprietatea	EGM 23/09/14	2.2, 2.6	In alignment with management's view, we opposed this resolution put forward by the Romanian Financial Services Authority.
Fondul Proprietatea	OGM 23/09/14	2	In alignment with management's view, we opposed this resolution put forward by the Romanian Financial Services Authority.
Companies	Voting Rationale		
LondonMetric Property	We opposed the proposal that gave the company the right to issue up to two-thirds of its issued share capital via a rights issue under Section 551 of the Companies Act 2006. We do not believe that it is in our clients' best interests to forego the right to vote on a large rights issue at an EGM.		

Votes Abstained

We did not abstain on any resolutions during the period.

Votes Withheld

We did not withhold on any resolutions during the period.

Votes Not Cast

Companies	Voting Rationale
ING (L) Flex Senior Loans Fund	We did not vote due to the practice known as "blocking" - the rules in some markets which restrict us from selling your shares during the period between the votes being cast and the date of the meeting.
ING (L) Flex Senior Loans Fund	We did not vote due to the practise known as "blocking" - the rules in some markets which restrict us from selling your shares during the period between the votes being cast and the date of the meeting.

Counterparty Trading Analysis

Baillie Gifford Diversified Growth Fund	Transactions (%)				Commissions Paid (GBP)			Estimated Split of Commission			
	Value (GBP)	Net	Negotiated Rate	Other Rates	Total Paid	Negotiated Rate	Other Rates	Execution (GBP)		Research (GBP)	
								Retained by Broker	Paid to 3 rd Parties	Retained by Broker	Paid to 3 rd Parties
Morgan Stanley	118,568,847	0.0	0.0	100.0	118,569	0	118,569	94,855	0	23,714	0
ITG Europe Ltd (POSIT-MTP) (Crossing Network)	36,793,256	0.0	0.0	100.0	12,403	0	12,403	12,403	0	0	0
Jefferies International (Holdings) Ltd	22,931,085	44.9	55.1	0.0	12,631	12,631	0	10,105	0	2,526	0
Deutsche Bank AG London	14,410,435	0.0	100.0	0.0	28,821	28,821	0	24,498	0	4,323	0
Nplus1 Singer Capital Markets Limited	10,310,298	100.0	0.0	0.0	0	0	0	0	0	0	0
Citigroup Inc	5,859,496	0.0	100.0	0.0	5,860	5,860	0	2,930	0	2,930	0
Royal Bank of Canada	3,183,108	0.0	0.0	100.0	344	0	344	344	0	0	0
Liquidnet Europe Ltd (MTP)	1,022,609	0.0	0.0	100.0	511	0	511	511	0	0	0
Total	255,820,751	14.3	16.7	69.0	198,081	66,253	131,828	160,800	0	37,281	0

Firm-Wide Comparators

	Transactions (%)				Commissions Paid (%)			Estimated Split of Commission			
	Value (%)	Net	Negotiated Rate	Other Rates	Total Paid	Negotiated Rate	Other Rates	Execution (%)		Research (%)	
								Retained by Broker	Paid to 3 rd Parties	Retained by Broker	Paid to 3 rd Parties
Baillie Gifford Diversified Growth Fund	100.0	14.3	16.7	69.0	100.0	33.4	66.6	81.2	0.0	18.8	0.0
BG Average *	100.0	4.5	28.5	67.0	100.0	43.8	56.2	87.3	0.0	12.7	0.0

Baillie Gifford Diversified Growth Fund Average Commission Rate	0.0774 %
BG Average *	0.0452 %
Total commission paid as a percentage of the value of the fund	0.0035 %

* Based on all global equity trading conducted with counterparties by Baillie Gifford.

Commission Analysis for any Baillie Gifford & Co. products held by the fund is shown below

Fund	Transactions (%)				Commissions Paid (GBP)			Estimated Split of Commission			
	Value (GBP)	Net	Negotiated Rate	Other Rates	Total Paid	Negotiated Rate	Other Rates	Execution (GBP)		Research (GBP)	
								Retained by Broker	Paid to 3 rd Parties	Retained by Broker	Paid to 3 rd Parties
Global Income Growth Fund	27,294,774	0.0	56.7	43.3	24,843	21,721	3,121	18,621	0	6,222	0
Global Alpha Growth Fund	110,897,931	1.3	30.4	68.3	32,176	12,969	19,207	30,607	0	1,570	0
Worldwide Japanese Fund	164,606,578	0.0	59.0	41.0	125,132	97,189	27,943	95,978	0	29,154	0
Pacific Fund	177,163,221	1.2	3.3	95.5	51,080	9,487	41,593	49,049	0	2,031	0
Long Term Global Growth Fund	13,986,108	8.7	14.3	77.0	3,232	795	2,437	2,756	0	476	0

Comparative Analysis

Fund	Average Commission Rate	Firm-Wide Comparator	Average Commission Rate
Global Income Growth Fund	0.09	Global	0.05
Global Alpha Growth Fund	0.03	Global	0.05
Worldwide Japanese Fund	0.08	Japan	0.04
Pacific Fund	0.03	Pacific (ex Japan)	0.04
Long Term Global Growth Fund	0.02	Global	0.05

Direct Currency Transactions

Counterparty	Spot Transaction Value* (GBP)	Forward Transaction Value (GBP)	Total (GBP)
Deutsche Bank AG London	0	3,981,509,790	3,981,509,790
HSBC	0	2,558,087,253	2,558,087,253
Royal Bank of Canada	0	2,146,790,948	2,146,790,948
Royal Bank of Scotland plc	0	2,066,069,589	2,066,069,589
National Australia Bank	0	2,041,435,254	2,041,435,254
Barclays Bank plc	0	1,601,968,788	1,601,968,788
Bank of New York Mellon (Custodian)	544,787,557	0	544,787,557
UBS	23,060,312	0	23,060,312
State Street Bank	1,506,884	0	1,506,884
Total	569,354,754	14,395,861,622	14,965,216,375

*Foreign exchange trading is on net basis; no commission paid.

Direct Bond Transactions

Counterparty	Trading Value (GBP)
HSBC Bank Plc	419,405,790
Barclays Bank Plc	129,345,839
Royal Bank of Scotland plc	97,293,517
Merrill Lynch International	73,166,834
Citigroup Inc	35,115,332
BBVA Banco Bilbao Vizcaya Argentaria S.A	25,032,083
JP Morgan Chase Bank NA	14,797,290
Nomura Holdings	13,852,549
Imperial Capital, LLC	12,487,969
Deutsche Bank AG	10,981,155
Societe Generale	10,612,189
AK Capital LLC	9,558,363
Lloyds Banking Group Plc	7,504,214
Royal Bank of Canada	6,768,921
Jefferies International (Holdings) Ltd	6,763,400
BNP Paribas	3,908,907
Chalkhill Partners LLP	2,561,900
Credit Suisse	1,750,337
Goldman Sachs & Co	1,402,100
UBS AG	1,036,102
Total	883,344,791

*Bond Trading is on net basis; no commission paid.

Direct Futures Transactions

Counterparty	Consideration Paid*	Commission Paid
UBS AG London	0	36,975
Total	0	36,975

*Disclosure of consideration paid is a regulatory requirement, but please note that there is generally no cash paid or received on opening a future contract

IMA Pension Fund Disclosure Code (Third Edition)	<p>The Pension Fund Disclosure Code was first adopted in May 2002 and was drawn up by a Joint Working Party of Members of the Investment Management Association (IMA) and the National Association of Pension Funds (NAPF). The purpose of the Code is to promote accountability of fund managers to their clients through increased transparency and to assist clients in their understanding of the charges and costs levied on the fund assets for which they have responsibility.</p> <p>Under the Code, fund managers are required to provide clients with information on how they make choices between trading counterparties and trading venues, more detailed information on how the resulting commission spend is built up, and what services are met out of commission spend, in particular such execution and research services as are permitted by the Financial Conduct Authority (FCA). It also provides a comparison of client specific information on costs and trading with similar firm-wide information.</p> <p>Although the Code was initially drawn up with pension funds in mind, we provide the disclosures for all our clients in compliance with relevant regulatory requirements.</p> <p>There are two distinct types of disclosure required by the Code:-</p> <p>Level 1 requires disclosure of Baillie Gifford's policies, processes and procedures in relation to the management of trading costs incurred on behalf of clients. This disclosure is provided annually to clients and is called the "Trading Procedures and Control Processes" document. This document is also available on request.</p> <p>Level 2 requires client specific information to be provided and is contained within this quarterly report. Level 2 aims to provide comprehensive, clear and standardised disclosure of information from which clients and their advisers can compare and monitor trading costs incurred during the fund management process and the services received in exchange for these commissions.</p> <p>We have included disclosure of transactions and commissions for Equities, Bonds, Currencies and Derivatives, where relevant..</p>
Broker Commission	<p>This page gives information by geographic region on the commission paid by the fund on all commission bearing transactions in directly held equities.</p>
Equity Trading Analysis and Commissions	<p>The trading and commissions analysis on the previous pages represents trading and commissions incurred by the fund over the quarter. Portfolio transactions are analysed by counterparty and type of trade. Transactions listed under "Other Rates" include programme trades, direct market access or algorithmic trades where commission rates may be lower. Commissions have been shown by counterparty where the fund holds stocks directly. Commissions paid have been analysed by the service purchased (execution or research) in compliance with the enhanced code. Where the fund gains exposure to equities via Open Ended Investment Companies (OEICs), transactions and commission analysis have been provided at the total fund level. A full disaggregation by counterparty for each of these funds is available on request. Where relevant, the proportion of commissions paid under directed or recapture arrangements is also shown. The fund's analysis of transactions, commissions paid and the commission split is compared with Baillie Gifford's total transactions, commissions paid and the commission split across all trading in the same asset classes. The fund's average commission rate is compared with Baillie Gifford's average commission rate across all trading in the same asset classes. A similar analysis for OEIC holdings is shown, at the total fund level.</p>
Non-Equity Trading Analysis	<p>The trading report for bonds shows trading volume by the fund over the quarter, analysed by counterparty. As all trades are executed on a net basis, no commission figures are available. Where derivative transactions are permitted, and executed, these are analysed by counterparty (executing broker) and show market value, underlying exposure and (execution) commission. Where the fund gains exposure to bonds via OEICs, transaction volume by counterparty, is available for each of these funds on request.</p> <p>All foreign exchange activity, for the entire portfolio is analysed by counterparty, distinguishing between spot and forward transactions. As all trades are executed on a net basis, no commission figures are available. Where the fund gains exposure to markets via OEICs, currency transaction volume by counterparty, is available for each of these funds on request.</p>
Income and Costs Summary	<p>This shows costs deducted from the fund on an actual basis. Fund management fees and VAT are included during the period when the invoice is raised. Custody costs are included when the sum is debited from the funds managed by Baillie Gifford.</p> <p>Any holdings of in-house pooled funds are shown together with their total expenses on a rolling yearly basis, expressed as a percentage of fund value. Expenses include broker commission on transactions dealt within the fund, bank charges, audit, registrar, depository and Regulatory fees. Any tax paid by the fund is not included. For A and B class OEIC shares investment management fees are also included.</p> <p>A dilution levy may also be charged on OEIC purchases and sales in the case of large transactions.</p> <p>If the portfolio has a holding in a stock that is not covered by the code, such as third party funds or investment trusts, this is also shown.</p>
AIFMD	<p>Your investment in the Baillie Gifford Diversified Growth Pension Fund is via a Trustee Investment Policy issued by Baillie Gifford Life Limited. The Baillie Gifford Diversified Growth Pension Fund in turn invests in the Baillie Gifford Diversified Growth Fund. The Alternative Investment Fund Managers Directive (AIFMD) does not apply to Baillie Gifford Life Limited. AIFMD does apply to the underlying fund, the Baillie Gifford Diversified Growth Fund and background information on the application of AIFMD to this fund is detailed below.</p> <p>The AIFMD creates a regulatory and supervisory framework for alternative investment fund managers within the EU. The scope of the Directive captures the management and the marketing of all non-UCITS funds; the Baillie Gifford Diversified Growth Fund (the Fund), a UK authorised Non-UCITS Retail Scheme, is therefore within its remit.</p> <p>The Fund's manager, Baillie Gifford & Co Limited, received confirmation of its authorisation as an Alternative Investment Fund Manager (AIFM) by the Financial Conduct Authority, on 1 July 2014.</p> <p>The Directive includes disclosure requirements, which we will include in your end-December Quarterly Report each year. Relatively minor amendments were made to the Fund's prospectus to comply with the regime; a copy of which is available on request.</p>

	Annual Expenses (%)			Trading Expenses (%)		
	Investment Management Fee	Other Expenses	Total Expense Ratio	Stamp Duty and Other Taxes	Broker Commissions	Total Expenses inc Direct Trading Costs
Baillie Gifford Diversified Growth Pension Fund	0.65	0.20	0.85	0.00	0.02	0.87

The Scheme invests in the Baillie Gifford Pooled Funds listed above. The Investment Management of the Funds has been delegated to Baillie Gifford & Co.

Costs are disclosed as a % of the value of the Fund on a historical rolling 12 month basis using average month end Fund values.

Investment Management Fees represent the standard annual investment management fee for each of the Pooled Funds listed and may not represent the fee actually paid by your Scheme. Please refer to your Scheme's Policy Terms or Management Agreement.

Other expenses will include custody charges unless separate provision is made for custody fee payment in your Scheme's Policy Terms or Management Agreement. Where the Fund is a sub-fund of an OEIC (Open Ended Investment Company) or invests in underlying OEIC sub-funds, it will also include expenses such as depositary fees, registration fees and audit fees.

Trading Expenses (stamp duty, other taxes and broker commission) arise when buying or selling stocks in the market. Buying or selling of stocks may result from: individual stock considerations, portfolio changes due to broader implementation of Baillie Gifford's investment policy and from both investment inflows and outflows from the Fund. When the Fund buys or sells investments in response to investment inflows and outflows the trading expenses are passed onto the incoming/outgoing investor through the pricing mechanism by means of a dilution adjustment.

Therefore, it is important to note that the above costs represent the costs of all trading undertaken by the Pooled Funds listed and do not reflect costs associated with investments or disinvestments that your Scheme may have undertaken during the period.

The Total Expense Ratio of the Baillie Gifford Diversified Growth Pension Fund is calculated by including the underlying expenses of the Fund and all open-ended fund investments, the management charges made by Baillie Gifford and the management charges of other open-ended funds. The Fund's investments change from time to time and so the figure quoted is an estimate based on the latest available data and asset allocation. Investments are also made in closed ended listed companies, none of which are managed by BG & Co; the underlying management expenses of these companies are not included in the above figure.

	Proceeds (GBP)	Book Cost (GBP)	Profit/Loss (GBP)
Total Purchases		17,699	
Accrued Interest		0	
		17,699	
Total Sales	0	0	0
Accrued Interest	0		
	0	0	0
Total Net Investment/Disinvestment			17,699
Net Accrued Interest			0
Total			17,699

Trade Date Settlement Date	Asset Name Sedol Code	Quantity Price	Proceeds (GBP)	Book Cost (GBP)	Profit/Loss (GBP)	Quantity Balance	Book Cost Balance (GBP)
Diversified Growth							
UK							
Purchases							
24/07/14	Baillie Gifford	9,585.286		17,699		26,132,056.606	40,218,460
24/07/14	Diversified Growth Pension Fund B3CRJ02	GBP 1.85					
Total Purchases				17,699			
Total Net Investment/Disinvestment UK							
							17,699
Total Net Investment/Disinvestment Diversified Growth							
							17,699
Total							17,699

Asset Name	Nominal Holding	Market Price	Book Cost (GBP)	Market Value (GBP)	Fund (%)
Diversified Growth					
Baillie Gifford Diversified Growth Pension Fund	26,132,056.606	GBP 1.87	40,218,460	48,767,644	100.0
Total Diversified Growth			40,218,460	48,767,644	100.0
Total			40,218,460	48,767,644	100.0

Valuation of securities	Holdings in Baillie Gifford Pooled Funds are valued at month end using a single price which reflects closing prices of the underlying assets in the funds. This month end price may differ from the price used for buying and selling units in the funds which is calculated daily at 10am and uses intra-day prices. This provides a consistent basis for reporting.
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	Market Value 30 June 2014 (GBP)	Net Investment/ Disinvestment (GBP)	Capital Gain/Loss (GBP)	Market Value 30 September 2014 (GBP)
Diversified Growth				
Baillie Gifford Diversified Growth Pension Fund	47,945,184	17,699	804,761	48,767,644
Total Diversified Growth	47,945,184	17,699	804,761	48,767,644
Total	47,945,184	17,699	804,761	48,767,644

	(GBP)	Book Cost (GBP)	Market Value (GBP)
As at 30 June 2014			
Diversified Growth		40,200,760.73	47,945,183.86
		40,200,760.73	47,945,183.86
Income			
Management Fee Rebate	17,699.23		
	17,699.23		
Net Total Income and Charges		17,699.23	17,699.23
Change in Market Value of Investments		0.00	804,760.95
As at 30 September 2014		40,218,459.96	48,767,644.04
Of which:			
Diversified Growth		40,218,459.96	48,767,644.04
Total		40,218,459.96	48,767,644.04

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