BAILLIE GIFFORD

London Borough of Tower Hamlets Pension Fund - DG

Report for the quarter ended
31 December 2014

Contents

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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*

Cross Section detail of a Nautilus Shell.

Performance to 31 December (%)

	Fund	Base Rate +3.5%
Since Inception* (p.a.)	6.0	4.0
Three Years (p.a.)	7.8	4.0
One Year	6.0	4.0
Quarter	0.8	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

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

News flow in the final quarter of 2014 was dominated by the fall in the oil price and the knock-on effects that this has had on various economies and companies

Monetary policy continues to diverge, with the Bank of Japan embarking on further quantitative easing and the European Central Bank edging towards its own QE programme, while the US Federal Reserve ended its programme and looks to interest rate rises in 2015

Investment markets have seen mixed performance, with government bonds and global equities producing positive returns while commodities fell sharply. Against this backdrop, the Diversified Growth Fund delivered a positive return

Valuation (after net flow of GBP 18,294)

Investment environment

News flow in the final quarter of 2014 was dominated by the fall in the oil price and the knock-on effects this had on various economies and companies. From a peak in the middle of June of $115, Brent oil fell to $93 at the end of September and then to $56 at the end of the year. The price fall reflects both lower demand, due to a weaker global growth outlook, and increased supply. This increased supply is down to continued growth in US shale oil, better than expected production from Libya and Iraq, and the reluctance of OPEC, and Saudi Arabia in particular, to cut supply in order to maintain higher prices.

A lower oil price is generally believed to be good for overall global economic growth, especially when increased supply is the main driver. The International Monetary Fund estimates that the lower oil price should increase global GDP by between 0.3% and 0.7% in 2015. These benefits are likely to be felt most by major oil importers including China, Japan, the United States and the Eurozone. On the other hand, major oil producing economies will be the losers, and have been coming under pressure. Russia in particular has suffered as the fall in the oil price compounded the impact of economic sanctions, with the ruble falling substantially against the US dollar.

Economic news was mixed over the quarter, with weaker data from the Eurozone, Japan and various Emerging Markets outweighing generally good data from the US. This is reflected in the reaction of central banks, with the US, Japan and the Eurozone at differing stages in their monetary easing cycles. With growth gradually picking up, the US Federal Reserve ended its quantitative easing (QE) programme, and attention is now on the timing of the first interest rate rise.

In Japan, the economy fell into recession amid concerns that current economic policies (dubbed 'Abenomics') are not working. The central bank responded by announcing a further round of QE in its attempt to get inflation to the 2% target. In addition, Prime Minister Abe called, and subsequently comfortably won, a snap election in December, taking advantage of his current popularity to consolidate his position and give him more time to carry out reforms.

The Eurozone continues to be a key area of concern as deflationary pressures build. The lower oil price will inevitably add to these deflationary pressures but this could be beneficial in helping European Central Bank (ECB) president Mario Draghi to win over sceptics on the merits of a full-blown QE programme. Whilst the ECB commenced its purchase of asset-backed securities, it is unlikely that this will have a significant impact, and a larger programme involving government bond purchases is likely to be required.

In investment markets, the lower growth and inflation outlook has resulted in a continued fall in developed market bond yields. For example, the ten-year UK Gilt yield fell from 2.4% to 1.8% over the quarter, having started the year at 3.0%. Equity markets have been a bit more volatile than in recent years with global equities falling by more than 5% twice in the past four months. However, despite bouts of short-term volatility, global equities produced a positive return over the quarter. The performance of other asset classes was mixed, with commodities falling sharply, and most other asset classes producing returns close to zero.

Outlook

A number of economies are struggling with high debt burdens and are battling to avoid deflation. As a result, investment markets remain very reliant on the policy of the major central banks. We continue to be of the view that most asset classes are priced to deliver lower returns than in recent years and that risk is not as well rewarded as it has been in the past.

It is generally expected that the ECB will embark on a larger QE programme in the first half of 2015 and this should help to drive markets higher. However, given differing views and complex political issues within the Eurozone, there is a risk this is watered down and is a case of 'too little, too late'. Elections may also prove disruptive as more radical parties, most notably Syriza in Greece, gain increasing influence.

The US economy is expected to continue to do well, although one likely outcome of this is interest rate rises. Easy monetary policy in the US has been one of the key drivers of rising markets over the past five or six years. It is unclear how markets will react once interest rates start to rise.

Positioning

We continue to have a cautiously positioned portfolio with a relatively high weighting to less economically exposed assets such as cash, senior structured finance and gold.

During the quarter we took some opportunities to add to listed equities and high yield credit after market falls. This was somewhat offset by taking profits on investments in US water utilities and German property that had performed very well and where valuations look stretched. The increase in listed equities included an additional allocation to Japan, where we feel that further QE, improving corporate governance and increasing equity allocations from domestic pension funds are all positives for the Japanese market.

Following the rally in government bonds, we sold out of our European Investment Bank holding and our holdings in Australian government bonds. We now have a zero weighing in government bonds.

Performance

The Fund generated a return of 0.8% over the final quarter of 2014, leading to a 6.0% return over the past 12 months. The annualised return for the past five years is 7.9% with a realised volatility of 4.7% per annum (all performance numbers are quoted before fees).

During the past three months, the largest contributors to performance were absolute return, listed equities and property. Most other asset classes were broadly flat over the quarter, with the exception of a negative contribution from active currency.

Over the past 12 months the greatest positive contributors were listed equities, emerging market bonds and absolute return.

Alexis Tsipras during the Resistance Festival 2014, organised by the Syriza Party.

Special Paper: Diversified Growth Client Seminars

We recently hosted a series of Client Seminars, in Manchester, London, Birmingham and Edinburgh. We were delighted that almost 200 people attended, representing more than 100 of our clients.

The purpose of the seminars was to provide our clients with the opportunity to meet each of the four Diversified Growth Fund Managers, and to help clients develop a greater understanding of our philosophy and process, as well as offering a better insight into the various asset classes in which the Fund invests.

The head of the Diversified Growth team, Patrick Edwardson, opened each seminar by emphasising the core values of our approach to Diversified Growth Investing:

- Absolute returns – a focus on making money for our clients
- Long-term big picture thinking – a focus on valuation and macroeconomic issues
- Diversity and flexibility across a broad range of asset classes
- Belief not conviction – a steer away from overconfidence, acknowledging that a wide range of outcomes is possible

During what we cryptically entitled the Asset Class Snorkel, we took a look beneath the surface of a selection of asset classes, taking care not to dive into too much detail!

James Squires explained which factors are most important when researching suitable investments in *government debt markets*, such as demographic trends and the credibility and independence of institutions such as central banks, alongside economic indicators including GDP growth, interest rates and inflation. James also talked about our infrastructure investments with a particular focus on renewable energy.

David McIntyre explained the difference between *high yield loans*, which are typically secured against the company's assets, and unsecured *high yield bonds*. David highlighted that despite their seniority, loans are currently offering higher returns than high yield bonds; hence the Diversified Growth Fund's increased exposure to loans.

Many people associate *structured finance* with the market collapse of 2008. However, David explained how this asset class is safer, more economically useful and a better investment opportunity than many investors would have you believe. Addressing each of these points, David illustrated why the Fund currently has a significant weighting across a spectrum of structured finance deals.

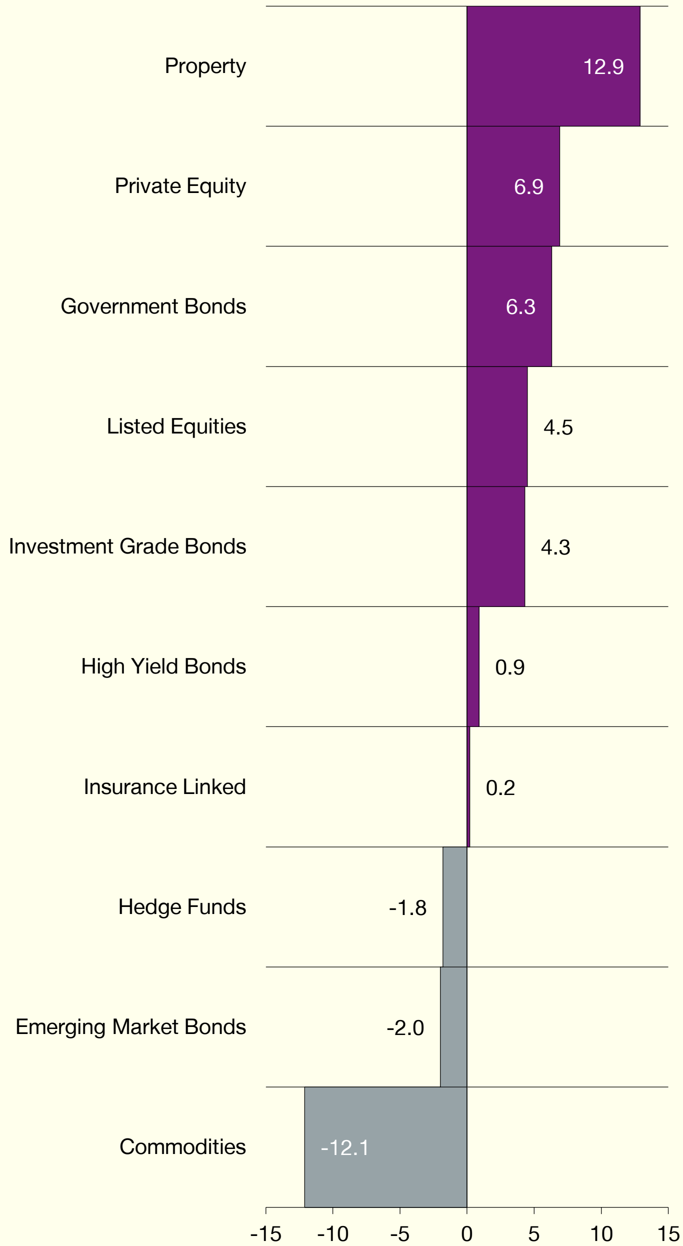
The Asset Allocation Debate provided an opportunity for clients to be a 'fly-on-the-wall' at live extracts from our team discussions.

This unscripted session showcased the nature of the Fund Managers' debate. The session reminded clients that we should expect differences of opinion between the four fund managers, and that the monthly asset allocation debate focuses on coming to agreement on the optimal portfolio positioning. Each session began as it would in the office, with an overview of the global macro-economic outlook. What followed was a discussion between the managers on two asset classes selected by the audience.

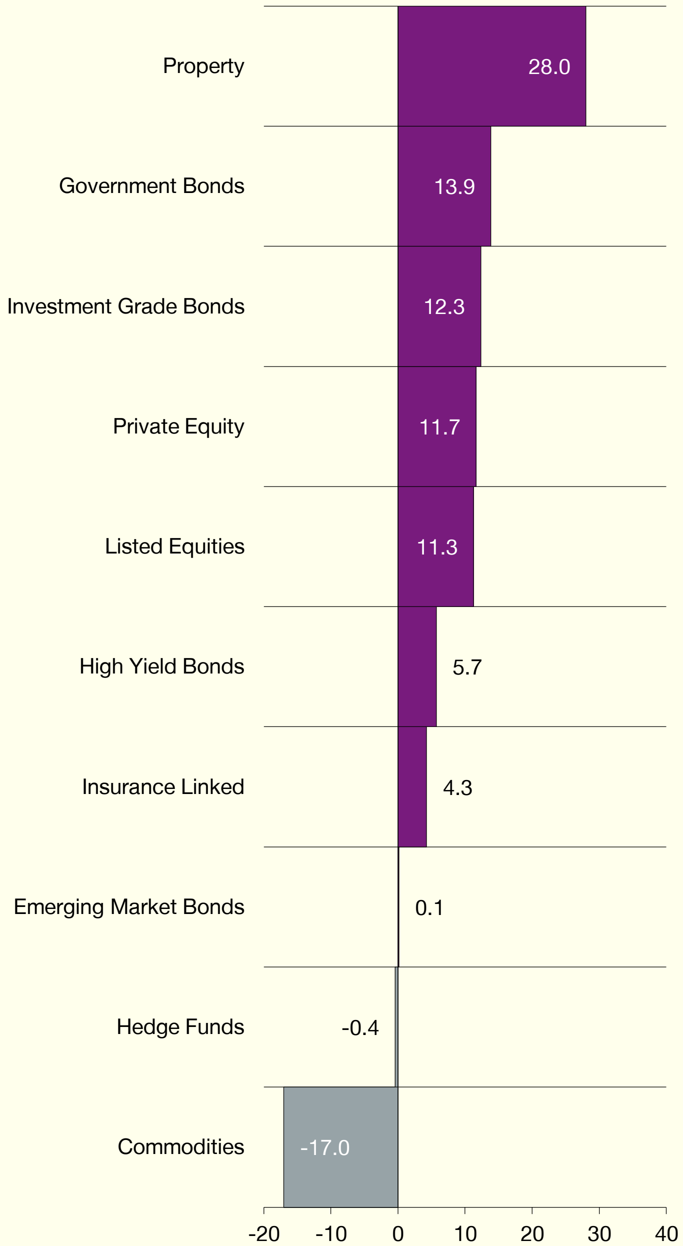
In our final session, Mike Brooks explained how all of us act on emotions and as a result our decision making process may not be entirely rational at all times. It is this view that lies at the heart of Behavioural Finance. Posing various questions of the audience, Mike tried to uncover their behavioural biases before explaining how we endeavour to avoid such pitfalls when investing the Diversified Growth Fund.

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%.

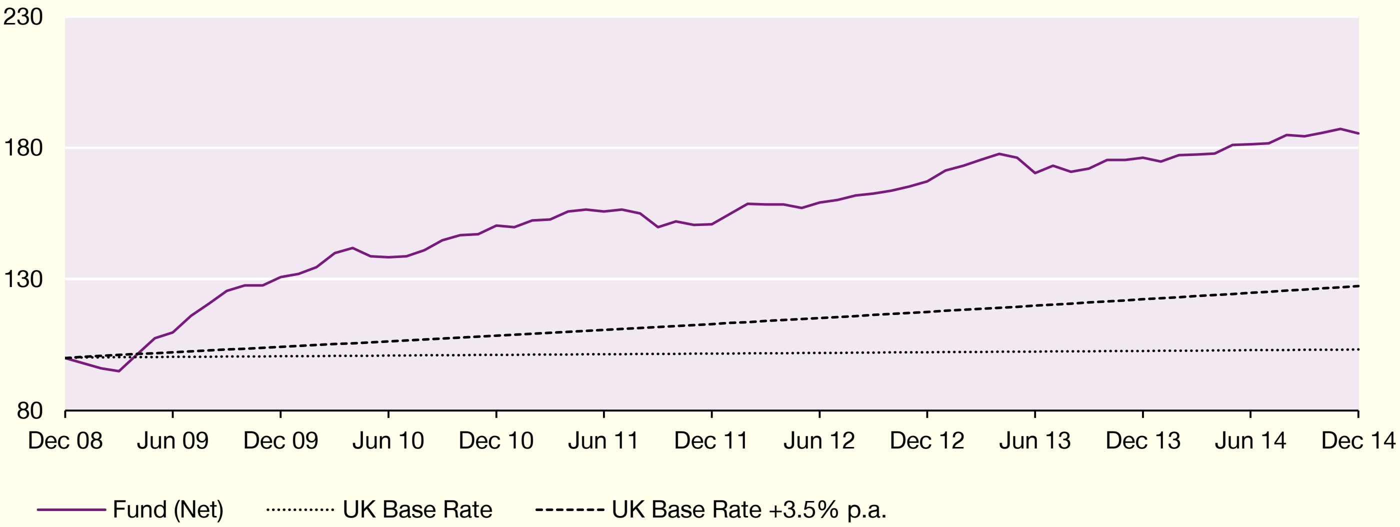
Performance

This table indicates the net performance of the Fund together with the UK Base Rate and the UK Base Rate +3.5%.

	Fund Net (%)	Base Rate (%)	Base Rate (%) +3.5%
Five Years (p.a.)	7.2	0.5	4.0
Three Years (p.a.)	7.1	0.5	4.0
One Year	5.3	0.5	4.0
Quarter	0.6	0.1	1.0

Source: StatPro, Baillie Gifford

Fund, UK Base Rate and UK Base Rate +3.5% 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.

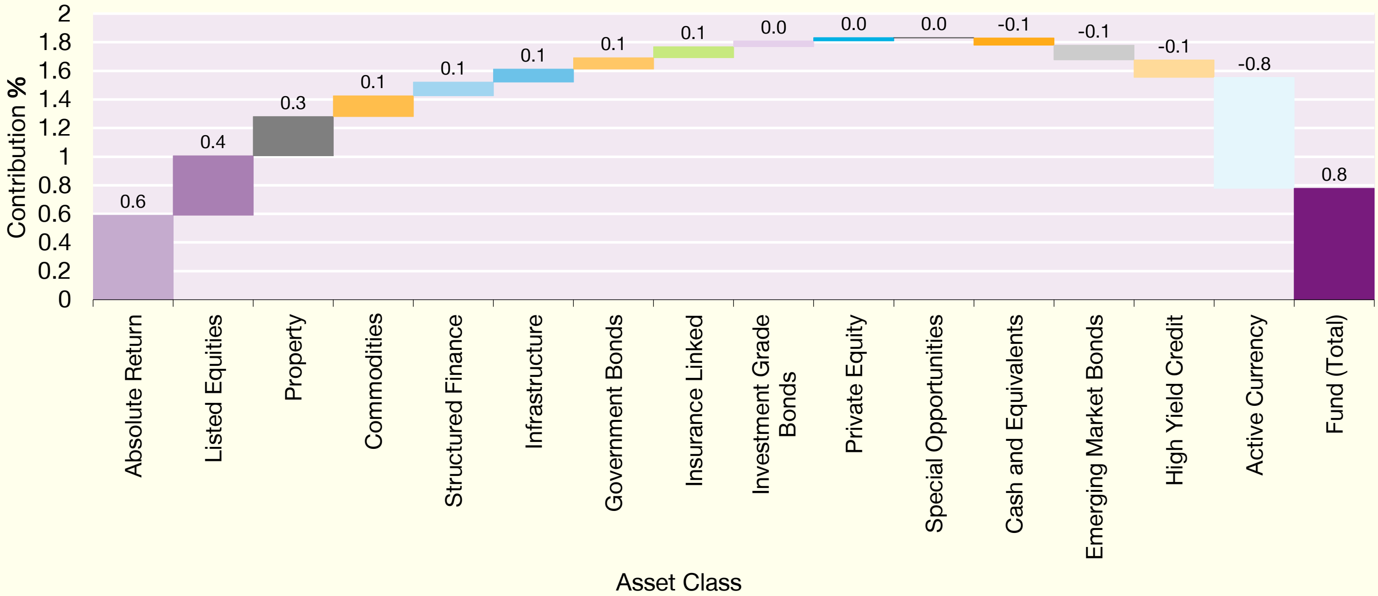
Summary Risk Statistics (%)

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 31 December 2014



Ave. Weight %	7.9	20.6	2.6	4.8	14.1	5.0	1.6	5.0	6.5	1.9	0.6	5.7	13.1	11.0	-0.3	100.0
Return %	7.3	1.7	10.4	2.3	0.3	1.4	3.7	1.2	0.2	0.6	-0.8	-0.9	-1.3	-1.4	-0.8	0.8

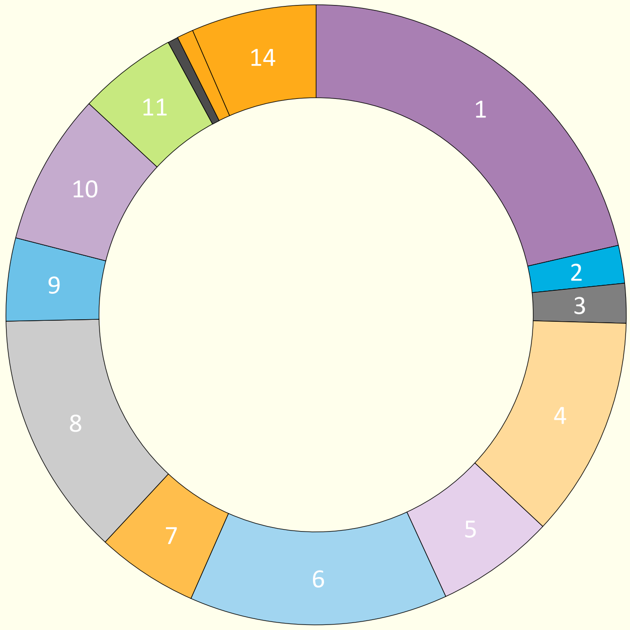
One Year to 31 December 2014

Ave. Weight %	16.9	13.2	6.7	2.2	12.1	8.4	5.1	4.0	4.2	5.7	11.1	2.4	0.6	7.5	0.0	100.0
Return %	6.0	4.1	8.4	31.5	4.9	5.4	8.0	9.8	9.0	5.3	1.4	4.0	4.5	-0.2	-0.1	6.0

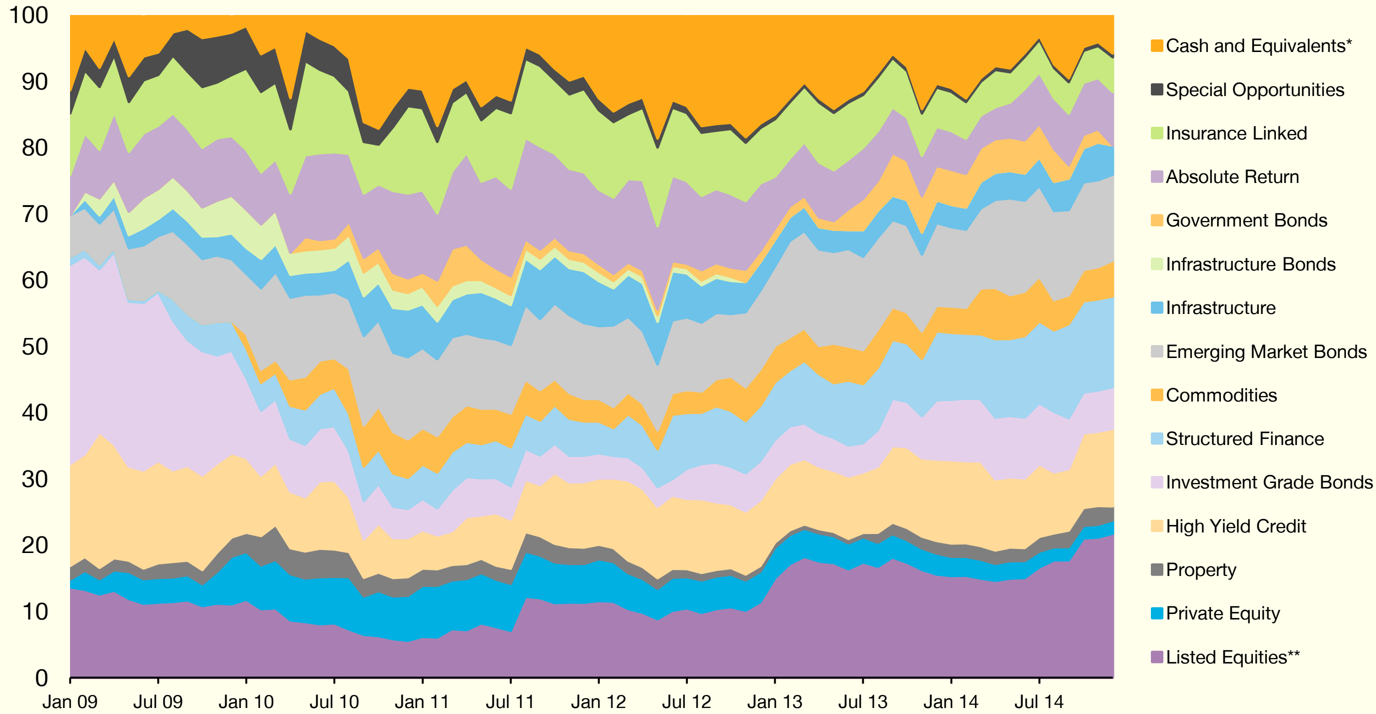
Source: Statpro/Baillie Gifford, gross of fees in sterling. Totals may not sum due to rounding

Asset Allocation at Quarter End

		(%)
1	Listed Equities**	21.8
2	Private Equity	2.0
3	Property	2.1
4	High Yield Credit	11.7
5	Investment Grade Bonds	6.3
6	Structured Finance	13.7
7	Commodities	5.4
8	Emerging Market Bonds	13.0
9	Infrastructure	4.4
10	Absolute Return	8.1
11	Insurance Linked	5.3
12	Special Opportunities	0.6
13	Active Currency	-0.9†
14	Cash and Equivalents	6.6
	Total	100.0



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



† This number shows the unrealised P&L of the Active Currency positions open in the Fund as at 31 December 2014
†† 30 December 2008
* Includes net Active Currency position
** Reflects effective exposure in portfolio, including futures positions; cash adjusted accordingly

Summary Risk Statistics (%)

Predicted Volatility	7.0

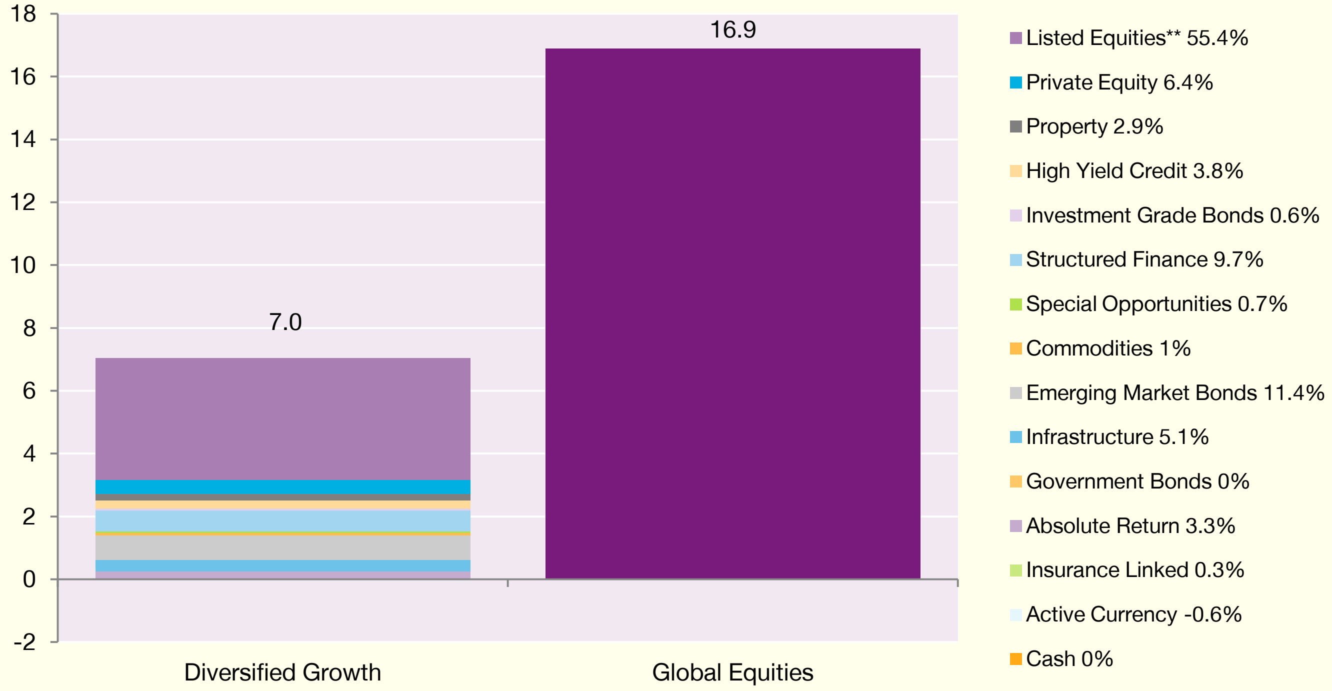
Source: Baillie Gifford, Moody's Analytics UK Limited

Volatility increased during the quarter on concerns over weaker global growth and the negative impacts of the sharply falling oil price on a number of economies and companies

Key risks to markets in 2015 include the uncertain impact of likely US interest rate rises, the threat of deflation in the Eurozone, the increasing prominence of more radical parties in forthcoming European elections and uncertainty over Russia's response to its weakened economic position

We have made small additions to equities on recent market weakness, but in broad terms the Diversified Growth portfolio remains cautiously positioned, reflecting our view that risks are not greatly rewarded

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.

Asset Name	Fund %
Listed Equities**	
Baillie Gifford Global Alpha Growth Fund C Acc	5.7
Baillie Gifford Global Income Growth Fund C Accum	5.0
BG Worldwide Japanese C GBP Acc	2.6
Baillie Gifford Pacific Fund C Accum	2.0
Baillie Gifford LTGG Fund C Accum	1.9
Euro Stoxx 50 Future Mar 15	1.0
Euro Stoxx 50 Index Dividend Futures 15	0.6
Euro Stoxx 50 Index Dividend Futures 16	0.6
Euro Stoxx 50 Index Dividend Futures 17	0.6
Euro Stoxx 50 Index Dividend Futures 18	0.6
Fondul Proprietatea	0.5
Euro Stoxx 50 Index Dividend 19	0.4
Euro Stoxx 50 Index Dividend 20	0.3
Damille Investments II	0.0
Total Listed Equities	21.8

Asset Name	Fund %
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
Electra Convertible 5% 2017	0.1
Dunedin Enterprise Investment Trust	0.1
Total Private Equity	2.0

Asset Name	Fund %
Property	
LEG Immobilien	0.7
Hammerson	0.5
Tritax Big Box REIT	0.3
LondonMetric Property	0.2
Target Healthcare REIT	0.1
Ediston Property Investment Company	0.1
Japan Residential Investment Company	0.1
Terra Catalyst Fund	0.0
Deutsche Wohnen	0.0
Invista 9% 2016 Pref	0.0
Total Property	2.1

Asset Name	Fund %
High Yield Credit	
Baillie Gifford High Yield Bond Fund C Gross Acc	4.7
Credit Suisse Nova (Lux) Global Senior Loan Fund	1.5
Henderson Secured Loans Fund	1.5
ING (L) Flex Senior Loans Fund	0.9
NB Global Floating Rate Income Fund	0.6
NB Distressed Debt Invest F NPV	0.4
Nuveen Floating Rate Income Fund	0.3
Eaton Vance Floating Rate Income Trust	0.3
Invesco Senior Income Trust	0.2
Voya Prime Rate Trust	0.2
CVC Credit Partners European Opportunities GBP	0.2
BlackRock Floating Rate Income Trust	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
First Trust Senior Floating Rate	0.1
HarbourVest Senior Loans Europe	0.0
Total High Yield Credit	11.7

Asset Name	Fund %
Investment Grade Bonds	
BG Worldwide Global Credit C USD Acc	6.3
Total Investment Grade Bonds	6.3

Asset Name	Fund %
Structured Finance	
Galene Fund	4.0
Metreta Fund	3.1
Julius Baer Multibond ABS Fund	3.0
TwentyFour Income Fund	0.4
Sorrento Park CLO A-1	0.4
German Residential Funding 2013-1 D	0.4
Babson CLO 2014-2 A1	0.3
Carlyle CLO 2014-3 A-1A	0.2
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
Carador Income Fund	0.2
German Residential Funding 2013-1 E	0.1
Granite 2007-1 6A1	0.1

Asset Name	Fund %
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
Babson CLO 2014-2 B1	0.1
Carlyle CLO 2014-3 A-2A	0.0
Total Structured Finance	13.7
Commodities	
Source Physical Gold P-ETC	2.0
ETFS Physical Palladium	1.0
Source Physical Palladium P-ETC	0.8
Source Physical Platinum P-ETC	0.6
ETFS Physical Platinum	0.5
ETFS Brent Crude	0.4
Total Commodities	5.4
Emerging Market Bonds	
Baillie Gifford Emerging Mkts Bond Fd C Gross Acc	8.0
Brazil CPI Linked 6% 15/08/2050	1.0
Mexico IL 4% 15/11/2040	0.8
Colombia 10% 24/07/2024	0.7
Brazil CPI Linked 6% 15/08/2022	0.5
Mexico 7.75% 13/11/2042	0.5
Mexico 8.5% 18/11/2038	0.5
Peru 6.85% 12/02/2042	0.3
Brazil CPI Linked 6% 15/05/2045	0.3
Afreximbank 5.75% 2016	0.2
Colombia 7.5% 26/08/2026	0.2
Colombia 7% 04/05/2022	0.1
Total Emerging Market Bonds	13.0
Infrastructure	
EDP Renovaveis	0.7
3i Infrastructure	0.7
OHL México	0.4
Greencoat UK Wind	0.4
Renewables Infrastructure Group	0.4
National Grid	0.3
John Laing Environmental Assets Group	0.3
Foresight Solar Fund	0.2
NextEnergy Solar Fund	0.2
Bluefield Solar Income Fund	0.2

Asset Name	Fund %
Terna	0.2
Snam Rete Gas	0.2
Total Infrastructure	4.4
Absolute Return	
Allianz Merger Arbitrage Strategy	3.0
Aspect Diversified Trends Fund	2.3
Amundi Volatility World Equities	1.1
Ferox Salar Convertible Absolute Return Fund	0.9
Winton Futures Fund	0.6
Boussard & Gavaudan	0.2
Total Absolute Return	8.1
Insurance Linked	
Everglades Re 2014-1 A	0.8
Tar Heel Re 2013-1 A	0.6
Everglades Re 2013-1 A	0.5
Alamo Re 2014-1 A	0.4
Lakeside Re III A	0.4
Embarcadero Re 2012-2 A	0.4
Tradewynd Re 2014-1 3B	0.3
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
Blue Capital Reinsurance Holdings Fund	0.1
East Lane Re V 2012 B	0.1
Blue Capital Global Reinsurance Fund	0.1
Tradewynd Re 2013-2 3B	0.1
MultiCat Mexico 2012-1 B	0.1
Compass Re 2011-1 3	0.1
Skyline Re 2014-1 A	0.1
Tradewynd Re 2014-1 1B	0.1
Tradewynd Re 2014-1 3A	0.0
K1 Life Settlement	0.0
Total Insurance Linked	5.3
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

Asset Name	Fund %
Active Currency	
Total Active Currency	-0.9
Cash and Equivalents	
Cash and UK T Bills	4.7
BG Worldwide Active Cash Plus Fund C Acc	1.9
Total Cash and Equivalents	6.6
Total	100.0

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

Fund Name	Update
Baillie Gifford Diversified Growth Fund	The volatility in markets offered us opportunities to take advantage of more attractive valuations in some asset classes during the quarter. Most notably we increased our exposure to listed equities and high yield credit in mid-October following market falls. These increases were largely funded by selling out of government bonds and from cash. The total addition to listed equities was 4% of fund. A significant proportion of this (1.5%) was an addition to Japanese equities. We believe that there are a number of positive factors supporting Japanese equities including further QE, improving corporate governance and significant increases in equity exposure from Japanese pension funds. The remainder of the increase was into our Global Alpha fund (1.5%) and to a European index future (1%), reflecting our view of relatively attractive valuations in Europe and a belief that a likely QE programme will have a positive impact on European equities. With most developed government bond markets rallying strongly we took profits by selling our Australian government bonds (2%) and European Investment Bank bonds (1.6%). The increase in listed equities was also partially funded by the sale of our basket of US water utility holdings (1% within our infrastructure asset class) and German property (0.7%). These investments had produced strong returns and valuations are now much less attractive. Within commodities we took advantage of falls in the price of platinum and palladium to increase our holdings (1%). We also took a position in an oil ETF (0.5%) towards the end of the quarter. This gives us exposure to the oil price, through oil futures. We believe that the fall in the oil price will prove unsustainable and in the medium to long term we are likely to see price rises in excess of those priced into the futures market. Within structured finance we sold out of our holdings in airplane-backed bonds (1.7%), taking profits as valuations have moved to less attractive levels. Most of the proceeds were invested in the Galene fund, our core exposure to mezzanine structured finance, and the senior tranches of a new European CLO deal, managed by Babson. Elsewhere in the portfolio we continued to add to our renewable infrastructure funds as they raised more capital. Our Emerging Market Bond weighting was largely unchanged but within the asset class we increased our holdings in Mexican and Colombian bonds, following a sell-off driven by concerns over the falling oil price, and funded this through a reduction in our holdings of Peruvian bonds which had performed well.

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	14	Companies	1	Companies	1
Resolutions	91	Resolutions	3	Resolutions	4

Climate change is a topic we have thought about frequently over the past ten years. It has been difficult to analyse a company's exposure to climate change risk with any degree of conviction. We are a partner in the Mercer Climate Change and Strategic Asset Allocation Study

Supply chain management for the garment industry is complicated, with many competing priorities

Historically, there has been limited access for non-domestic investors to companies listed on Chinese stock exchanges. This is beginning to change with the opening up of the A-share market via the Hong Kong-Shanghai Stock Connect project

Company Engagement

Engagement Type	Company
Corporate Governance	CyberAgent Inc, Yaskawa Electric Corp.
AGM or EGM Proposals	CyberAgent Inc, Fondul Proprietatea
Executive Remuneration	Rakuten

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

As we have mentioned in previous letters, when incorporating ESG factors into our investment process we have had considerable focus on the 'G' of the term ESG over the past few years. This is understandable, and logical even. Governance is about people, relationships, values, and incentives, and these factors guide corporate attitudes and activities, including social and environmental performance. All of these governance factors will influence the long-term returns of the companies we invest in for our clients.

The difficulty with environmental and social indicators is that they are less clear cut, and are often more relevant to sectors and countries than to individual companies. So, what is interesting and helpful for us is to understand how each company is responding to the broader risks and opportunities from a reputational and business operation perspective.

Two significant 'E' and 'S' projects we are currently working on are climate change and garment supply chains. This is not an easy task because these are complex issues; the more time that is spent understanding the issues, the bigger the challenge seems to be.

Environment – climate change

Climate change is a topic we have thought about frequently over the past ten years, and it is an area where we are seeing an increasing amount of interest from our clients. It has been difficult to analyse a company's exposure to climate change risk with any degree of conviction beyond saying 'oil is more carbon intensive than gas; energy efficiency is a positive idea; and adaptation, remediation and mitigation technologies should be long-term winners'. We have carried out portfolio reviews and looked at renewable energy companies, but there remains a hurdle to answering the 'so what?' question. Many factors interlink to create this uncertainty; lack of regulation, the very low carbon price where one exists; timeframes (climate is a very long-term issue); the inconsistency of subsidies, and the many difficulties in accurately estimating an individual company's carbon footprint. But a shoulder shrugging 'it's difficult' is obviously not a satisfactory answer.

To introduce a different perspective, we are participating in the Mercer Climate Change project. This is a global project involving a number of asset owners together with some investment managers. The report, which examines the potential implications for investors under various climate change scenarios, is expected in the first half of 2015. We hope it will increase knowledge levels, challenge accepted assumptions, and raise the baseline for continued thinking on this topic and for debate with investors and our clients. One of the first insights is that it is an even longer-term issue than one might believe. Climate change happens over hundreds of years. Even though we think we are adopting a long-term view in looking for companies we can hold for ten or even 20 or 30 years, climate change models are looking at 300 years. So, long-term investing and climate aren't easy companions. What is clear though is that the volatility in weather patterns is increasing, and so companies should be looking to be energy efficient and able to adapt to increases in weather volatility.

Social – supply chain management for the garment industry

A number of our strategies have holdings in companies which are involved in the garment industry. Sitting behind a desk in Edinburgh is a very comfortable place to be when analysing garment companies and assessing their approaches to working conditions, pay scales, what the correct minimum age for employees is and whether subcontracting to an unaudited supplier factory is acceptable or not. Companies' sustainability reports tend to describe the issues in black and white terms with a list of actions that are unacceptable and others that require improvement and monitoring. In reality, it is not that simple. And the challenge does not lie simply with the retail companies' policies or the factory owners; order volumes are instantly reduced if there is a contraction of the European or US economies, for example. A member of the Corporate Governance team visited Bangladesh and Myanmar to learn about the realities of the challenges, what responsibilities lie with the brands themselves, the factories and with us. The 2014/15 Governance Review (published in the second quarter of this year) will include a more detailed review of the trip and summarise the insights that we will be applying to our research of existing and potential holdings in the garment industry.

Governance – China 'A' shares

We realise that the evolving opportunities for investment in China are of interest to clients, regardless of whether their portfolio has direct exposure to the region. Historically, there has been limited access for non-domestic investors to companies listed on mainland Chinese stock exchanges. This is beginning to change with the opening up of the A-share market via the Hong Kong-Shanghai Stock Connect project, which will significantly increase the number of investible companies for foreign investors. In conjunction with greater research efforts from our equity teams, we are increasing our focus on what arguably is one of the more inefficient markets that we will be able to invest in for our clients. Indeed, given the inefficiencies, China could be very rewarding for investors, such as Baillie Gifford, who have rigorous bottom-up research processes, and lead to significant opportunities for clients. However, opportunity comes with its own challenges. Information is limited in inefficient markets, bribery and corruption is a visible risk in the country, and the prospect of inaccurate, exaggerated disclosures from companies exists. The regulators have good laws but enforcement is often half-hearted, albeit this is improving. Assessments of governance structures, management quality and motivations are therefore a key component of the investment research for this market. This is something the investment and Corporate Governance teams look forward to cooperating on as opportunities for investment become available.

These three topics are increasingly relevant to listed companies, regardless of where they are listed or the sector in which they operate. Climate change is a global issue, every company has a supply chain in some form and China is an increasingly important market for investors and investee companies.

Company	Engagement Report
CyberAgent Inc	CyberAgent is a Japanese corporation that invests in companies with internet-related business in the advertising and gaming sector. We had a call with investor relations to discuss the company's approach to governance. In line with changes in the governance landscape in Japan, CyberAgent is keen to improve its practices as part of supporting its long-term performance. Accordingly, the company recently removed its poison pill and is recruiting an independent outside director. We also discussed changes to the compensation policy and how the company structures incentives for its employees. This was an informative call which we will look to build upon in the future.

Votes Cast in Favour

Company	Meeting Details	Resolution(s)	Voting Rationale
HarbourVest Senior Loans Europe	EGM 27/11/14	1	We supported the voluntary liquidation of the company.

Companies	Voting Rationale
Bluefield Solar Income Fund, Doric Nimrod Air Two, Eaton Vance Senior Income Trust, Fondul Proprietatea, Foresight Solar Fund, Greencoat UK Wind, HarbourVest Senior Loans Europe, Julius Baer Multibond ABS Fund, NextEnergy Solar Fund, Nuveen Floating Rate Income Fund, Nuveen Senior Income Fund, Renewables Infrastructure Group, Snam Rete Gas, Target Healthcare REIT	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
Electra Private Equity	OGM 06/10/14	1, 2	We opposed a shareholder resolution to elect a board nominee as we do not believe it is in shareholders' long-term interests.
Electra Private Equity	OGM 06/10/14	3	We opposed a shareholder resolution to remove an existing non-executive director from the board as we do not believe it is in shareholders' best interests.

Votes Abstained

Company	Meeting Details	Resolution(s)	Voting Rationale
Julius Baer Multibond ABS Fund	AGM 20/10/14	1-3, 6	We abstained as the relevant documents were not publically available at the time of completing the vote.

Votes Withheld

We did not withhold on any resolutions during the period.

Votes Not Cast

Companies	Voting Rationale
Amundi Volatility World Equities, 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 Execution (GBP)		Research (GBP)	
	Value (GBP)	Net	Negotiated Rate	Other Rates	Total Paid	Negotiated Rate	Other Rates	Retained by Broker	Paid to 3rd Parties	Retained by Broker	Paid to 3rd Parties
Morgan Stanley	113,636,963	0.0	76.5	23.5	113,637	86,951	26,686	90,910	0	22,727	0
FundSettle	90,031,370	0.0	0.0	100.0	0	0	0	0	0	0	0
UBS AG	51,875,655	0.0	0.0	100.0	17,670	0	17,670	17,670	0	0	0
Royal Bank of Canada	40,965,564	11.2	0.0	88.8	32,030	0	32,030	32,030	0	0	0
Citigroup Inc	32,083,799	0.0	100.0	0.0	32,084	32,084	0	16,042	0	16,042	0
ITG Europe Ltd (POSIT-MTP) (Crossing Network)	31,910,267	0.0	0.0	100.0	17,398	0	17,398	17,398	0	0	0
JP Morgan Chase Bank NA	13,199,753	0.0	100.0	0.0	13,200	13,200	0	10,560	0	2,640	0
Investec Bank plc	12,264,156	0.0	100.0	0.0	12,264	12,264	0	8,585	0	3,679	0
Jefferies International (Holdings) Ltd	10,759,048	74.3	25.7	0.0	7,734	7,734	0	5,248	0	2,486	0
Canaccord Genuity Limited	6,230,000	100.0	0.0	0.0	0	0	0	0	0	0	0
Other Brokers *	18,524,176	58.6	9.4	32.0	6,208	1,749	4,460	5,684	0	525	0
Total	421,480,750	7.0	35.4	57.6	252,225	153,982	98,243	204,126	0	48,099	0

* The details of all other counterparties used during the period are available to clients upon request.

Firm-Wide Comparators

	Transactions (%)				Commissions Paid (%)			Estimated Split of Commission Execution (%)		Research (%)	
	Value (%)	Net	Negotiated Rate	Other Rates	Total Paid	Negotiated Rate	Other Rates	Retained by Broker	Paid to 3rd Parties	Retained by Broker	Paid to 3rd Parties
Baillie Gifford Diversified Growth Fund	100.0	7.0	35.4	57.6	100.0	61.0	39.0	80.9	0.0	19.1	0.0
BG Average *	100.0	4.8	27.6	67.6	100.0	44.6	55.4	88.7	0.0	11.3	0.0

Baillie Gifford Diversified Growth Fund Average Commission Rate	0.0598 %
BG Average *	0.0449 %
Total commission paid as a percentage of the value of the fund	0.0045 %

* 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

	Transactions (%)				Commissions Paid (GBP)			Estimated Split of Commission Execution (GBP)		Research (GBP)	
Fund	Value (GBP)	Net	Negotiated Rate	Other Rates	Total Paid	Negotiated Rate	Other Rates	Retained by Broker	Paid to 3rd Parties	Retained by Broker	Paid to 3rd Parties
Global Income Growth Fund	46,523,436	0.0	46.1	53.9	36,098	26,697	9,401	29,341	0	6,756	0
Global Alpha Growth Fund	111,945,496	0.0	8.8	91.2	33,801	5,600	28,201	33,269	0	531	0
Worldwide Japanese Fund	17,020,066,025	0.2	0.8	99.1	3,520,086	129,470	3,390,616	3,499,593	0	20,493	0
Pacific Fund	60,455,739	0.0	43.7	56.3	111,919	95,429	16,491	69,571	0	42,349	0
Long Term Global Growth Fund	27,512,654	8.0	42.1	49.9	4,131	2,323	1,808	4,131	0	0	0

Comparative Analysis

Fund	Average Commission Rate	Firm-Wide Comparator	Average Commission Rate
Global Income Growth Fund	0.08	Global	0.04
Global Alpha Growth Fund	0.03	Global	0.04
Worldwide Japanese Fund	0.02	Japan	0.05
Pacific Fund	0.19	Pacific (ex Japan)	0.05
Long Term Global Growth Fund	0.02	Global	0.04

Direct Currency Transactions

Counterparty	Spot Transaction Value* (GBP)	Forward Transaction Value (GBP)	Total (GBP)
Barclays Bank plc	0	3,523,557,812	3,523,557,812
Deutsche Bank AG London	0	2,979,798,587	2,979,798,587
HSBC	0	2,542,023,436	2,542,023,436
National Australia Bank	0	2,473,132,076	2,473,132,076
Royal Bank of Scotland plc	0	1,854,154,651	1,854,154,651
Royal Bank of Canada	0	1,830,145,133	1,830,145,133
Bank of New York Mellon (Custodian)	775,163,907	0	775,163,907
UBS	60,047,593	0	60,047,593
Brown Brothers Harriman	13,118,233	0	13,118,233
Mellon Trust	3,443,700	0	3,443,700
Northern Trust Company	1,390,788	0	1,390,788
Total	853,164,221	15,202,811,695	16,055,975,916

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

Direct Bond Transactions

Counterparty	Trading Value (GBP)
HSBC Bank Plc	160,126,776
National Australia Bank	110,700,482
Royal Bank of Scotland plc	90,009,000
Merrill Lynch International	71,030,200
Citigroup Inc	64,011,017
BBVA Banco Bilbao Vizcaya Argentaria S.A	54,441,388
Goldman Sachs & Co	30,759,871
Banco Santander SA	28,079,782
JP Morgan Chase Bank NA	27,505,714
Swiss Re	22,610,025
Nomura Holdings	8,339,506
Total	667,613,760

Bond Trading is on net basis; no commission paid.

Direct Futures Transactions

Counterparty	Consideration Paid*	Commission Paid
UBS AG London	0	19,068
Total	0	19,068

*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)	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. 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. 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. There are two distinct types of disclosure required by the Code:- 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. 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. We have included disclosure of transactions and commissions for Equities, Bonds, Currencies and Derivatives, where relevant..
Broker Commission	This page gives information by geographic region on the commission paid by the fund on all commission bearing transactions in directly held equities.
Equity Trading Analysis and Commissions	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.
Non-Equity Trading Analysis	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. 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.
Income and Costs Summary	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. 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. A dilution levy may also be charged on OEIC purchases and sales in the case of large transactions. 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.

AIFMD

The Alternative Investment Fund Managers Directive (AIFMD) creates a regulatory and supervisory framework for alternative investment fund managers within the European Union. The scope of the Directive captures the management and the marketing of all non-UCITS funds; the Baillie Gifford Diversified Growth Fund, a UK authorised Non-UCITS Retail Scheme, is therefore within its remit.

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.

The Directive includes disclosure requirements, and relatively minor amendments were made to the Fund’s prospectus to comply with the regime. A copy is available to all investors on request.

Leverage

The term "leverage" is defined under AIFMD as any method by which the AIFM increases the exposure of a Fund whether through borrowing of cash or securities, or leverage embedded in derivative positions such as currency forward positions, or by any other means.

The AIFM must set a maximum level of leverage which the Fund is entitled to employ. AIFMs must employ two methods for calculating the amount of leverage employed: (i) the Gross Method and (ii) the Commitment Method. The overall leverage of a Fund should be expressed as a ratio between the exposure of the Fund and its net asset value. The Gross Method, generally speaking, takes account of the absolute exposure of the Fund while the Commitment Method takes into account netting or hedging arrangements put in place.

We believe that the methodology results in the disclosure of figures that do not represent a typical definition of leverage within the Fund. The Diversified Growth Fund does not borrow money to leverage our investments. The Fund does take matching long/short currency positions in order to generate returns and to hedge currency exposure, and these currency positions have a material impact on leverage as defined under AIFMD. Typical types and sources of leverage which the Fund employs include: (i) derivatives for efficient portfolio management purposes (including hedging), and (ii) use of derivatives for investment purposes.

The maximum level of exposure to be employed by the Diversified Growth Fund, calculated in accordance with the Gross Method, is 1,000%. The total amount of leverage employed at 31 December 2014 under the Gross Method was 354%.

The maximum level of exposure to be employed by the Diversified Growth Fund calculated in accordance with the Commitment Method is 300%. The total amount of leverage employed at 31 December 2014 under the Commitment Method was 177% (i.e. incremental leverage of 77%).

Any changes to these maximum levels will be advised to clients.

	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	0.23	0.88	0.00	0.02	0.90

You are invested 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 Fund on a historical rolling 12 month basis.

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 you. Please refer to your Policy Terms or Management Agreement.

Other expenses will include custody charges unless separate provision is made for custody fee payment in your 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 you 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		18,294	
Accrued Interest		0	
		18,294	
Total Sales	0	0	0
Accrued Interest	0		
	0	0	0
Total Net Investment/Disinvestment			18,294
Net Accrued Interest			0
Total			18,294

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							
24/10/14 24/10/14	Baillie Gifford Diversified Growth Pension Fund B3CRJ02	9,851.780 GBP 1.86		18,294		26,141,908.386	40,236,754
Total Purchases				18,294			
Total Net Investment/Disinvestment UK							18,294
Total Net Investment/Disinvestment Diversified Growth							18,294
Total							18,294

Asset Name	Nominal Holding	Market Price	Book Cost (GBP)	Market Value (GBP)	Fund (%)
Diversified Growth					
Baillie Gifford Diversified Growth Pension Fund	26,141,908.386	GBP 1.88	40,236,754	49,084,047	100.0
Total Diversified Growth			40,236,754	49,084,047	100.0
Total			40,236,754	49,084,047	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.

	Market Value 30 September 2014 (GBP)	Net Investment/ Disinvestment (GBP)	Capital Gain/Loss (GBP)	Market Value 31 December 2014 (GBP)
Diversified Growth				
Baillie Gifford Diversified Growth Pension Fund	48,767,644	18,294	298,109	49,084,047
Total Diversified Growth	48,767,644	18,294	298,109	49,084,047
Total	48,767,644	18,294	298,109	49,084,047

	(GBP)	Book Cost (GBP)	Market Value (GBP)
As at 30 September 2014			
Diversified Growth		40,218,459.96	48,767,644.04
		40,218,459.96	48,767,644.04
Income			
Management Fee Rebate	18,293.77		
	18,293.77		
Net Total Income and Charges		18,293.77	18,293.77
Change in Market Value of Investments		0.00	298,109.38
As at 31 December 2014		40,236,753.73	49,084,047.19
Of which:			
Diversified Growth		40,236,753.73	49,084,047.19
Total		40,236,753.73	49,084,047.19

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