BAILLIE GIFFORD

London Borough of Tower Hamlets Pension Fund - DG

Report for the quarter ended
31 March 2015

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Online Reporting

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Woven fabric fibres. Coloured scanning electron micrograph (SEM) of fibres woven into a lattice of interlocking parts. This is part of a cloth called Georgette crepe.

Performance to 31 March (%)

	Fund	Base Rate +3.5%
Since Inception* (p.a.)	6.5	4.0
Three Years (p.a.)	7.2	4.0
One Year	8.6	4.0
Quarter	3.4	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 (%)

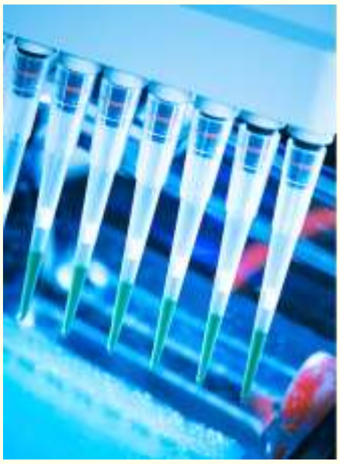
Delivered Volatility	4.4

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

Most asset classes delivered good returns over the quarter. Economic news was mixed with the most striking development being a decline in headline inflation as last year's oil price collapse flowed through

The European Central Bank began to buy government bonds in the hope of injecting some energy into the euro area economy. At the same time, debate in the US focused on when, and by how much, interest rates may rise this year

There were big moves in foreign exchange rates during the quarter, with the dollar strong against most currencies. Reflecting the decline in inflation, bond yields fell during the quarter to reach record low levels



Valuation (after net flow of GBP 18,467)

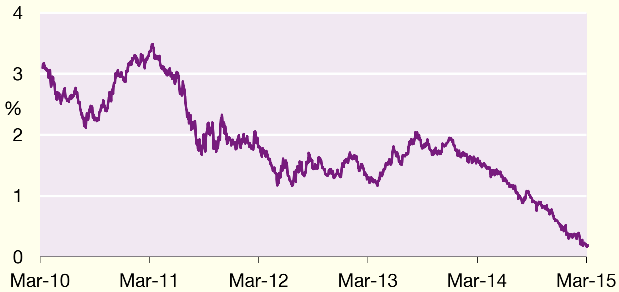
Investment environment

Much of last quarter's commentary centred on the dramatic fall in the oil price, from a peak of $115 to $56 by year end. Although it has on occasion touched lower levels since then, the oil price now appears to have stabilised, for the time being at least. However, its impact on the broader economy, particularly on inflation indices, is still being felt. Here in the UK, RPI fell to 0.9% at the end of March, whilst official inflation measures in most countries have dropped to unusually low levels.

Inflation rates dropping to near zero has encouraged speculation that we are about to enter a period of deflation, an economic environment in which the general level of prices falls rather than rises. In turn, this has stoked investor demand for fixed rate bonds and, as a result, government and other bonds yields in many markets have touched new lows.

This has been particularly noticeable in Europe where declining inflation rates have coincided with the European Central Bank (ECB) purchasing Eurozone government bonds as part of its quantitative easing programme. For example, ten-year German government bonds now yield 0.2% and similar-maturity bonds from Switzerland, though not the subject of ECB buying, now yield less than 0%, meaning that investors are paying to lend money to the Swiss government.

10 Year Bund Yield to Maturity

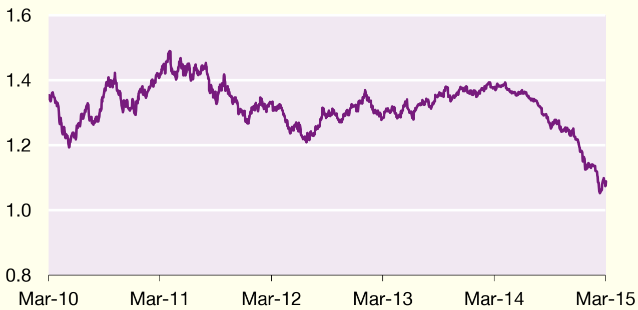


Source: DataStream

Some of the enthusiasm for German and Swiss government bonds may also be down to safe haven capital flows as the Eurozone experienced another bout of nerves over Greece. There, a new left-wing government is seeking to renegotiate the terms of the financial support package it receives from Europe and the IMF. This could yet end with Greece defaulting on its debt and leaving the euro. However, if this has been a factor, it seems to have had less influence than similar episodes in the past.

The fact that markets seem more relaxed about Greek difficulties probably reflects greater confidence in the strength of the banking system across Europe and the willingness of the ECB to provide support should it be needed. The ECB's enthusiasm for buying bonds and expanding its balance sheet has certainly been taken well by bond and equity investors. However, the reaction in currency markets to this money-printing effort has been a significant depreciation in the euro – it fell by approximately 10% against the US dollar over the quarter and by more than 20% in a single day against the Swiss franc, as the Swiss central bank abandoned its long-standing cap on the strength of the currency.

A Weakening Euro vs. US Dollar



Source: Bloomberg

Exchange rate volatility was not limited to the euro. Some emerging market currencies have also seen large moves and the dollar has been strong generally. This shift towards greater volatility in currency markets reflects diverging economic conditions and monetary policies across the globe. While recent numbers suggest some improvement in Europe, policymakers there are still clearly focused on promoting growth. The same is true of Japan. Many developing economies have lost momentum and we think Chinese growth has slowed significantly. Official figures in China suggest a mild deceleration in growth to levels that, in absolute terms, would still be the envy of most countries. However, other evidence suggests a far more meaningful slowdown and there are valid concerns over the structure of the Chinese economy, its over-reliance on fixed capital formation and a distorted banking system.

Activity in the US has, in contrast, been much more buoyant over recent years with significant job creation and a falling unemployment rate. As a result, the Federal Reserve is expected to raise interest rates at some point this year. It is this stronger economic activity and the anticipation of higher interest rates that has boosted demand for the dollar. A strong dollar will affect the profitability of many US companies and this may explain the relatively modest performance of US equities so far this year. Elsewhere, stock markets have performed well, supported by either the reality or expectation of easy monetary policy.

Outlook

The immediate outlook seems to be for moderately weak growth in the global economy and, as noted above, considerable variation in conditions across different economic regions. Inflation rates are also likely to remain low and perhaps even fall below zero in some countries, before lifting again later this year as the oil price fall drops out of the calculation. This suggests another year in which global nominal GDP growth comes in somewhere between 5% and 6%.

Valuations on most asset classes seem to be at least equal to, if not greater than, their historic averages. Arguments can be constructed that, in the current conditions, these valuations are still fair and reasonable. However, we feel that, in combination with such modest GDP growth, it would be stretching credulity to expect outsized investment returns from this point. We therefore wish to remind investors in the Fund that its return target, set over rolling five-year periods, is at least 3.5% per annum over UK base rate.

The fact that stronger returns have been delivered since the Fund was launched reflects the low level of valuations that prevailed at the end of 2008 and the aggressive monetary policies followed by central banks since then. The leading role in that effort was taken by the US Federal Reserve, which now seems on the cusp of tightening policy. The move up in rates is likely to be a modest one, but the change of direction could prove significant.

Positioning

In recent changes to asset allocation, we have lowered the equity weighting and reduced the portfolio's exposure to an adverse move in interest rates, particularly in the US.

While these moves are not greatly significant in themselves, they bolster what we believe was already a cautious slant to the portfolio, which remains diversified across many asset classes. The largest exposure is to equities but that accounts for just one-fifth of the portfolio and is half what our asset allocation limits would permit us to own, if we were truly bullish on equities. The next largest allocations are to high yield credit markets and structured finance, but we believe our exposure to rising interest rates in these allocations is limited, either because the bonds held are short-dated or floating-rate instruments, where the coupon payment will rise with market interest rates.

The only other allocation that exceeds 10% of the portfolio is to bonds issued by governments of developing economies. Yields on these are much higher than on developed economy government bonds – around 6% on average – so we feel there is a stronger valuation argument for owning them. These are denominated in the local currencies of the issuer countries and we therefore bear the risk of loss on this currency exposure. However, elsewhere in the portfolio (mainly in the active currency overlay), we have a long position in the US dollar, which should provide a substantial offset.

Performance

The return on the Fund (net of fees) in the year to 31 March 2015 was +7.9% and over the past five years +6.5% on an annualised basis. Delivered volatility over the past five years was 4.4% per annum. The return on the Fund (net of fees) in the past three months, covering the period since we last reported to you, was 3.2%.

Over the past year, all asset classes contributed positively to performance, with the greatest contributions coming from listed equities, active currency and absolute return.

In the three months to 31 March 2015, the largest contributors to performance were listed equities, active currency, high yield credit and absolute return. Most other asset classes were broadly flat over the quarter.

Special paper: portfolio interest rate exposure

Perhaps the most striking feature of markets over the past few years has been the historically low levels to which bond yields and interest rates have fallen. Here, we look at the different types of fixed income investments held by the Diversified Growth Fund and consider how exposed the portfolio might be to a future rise in bond yields and interest rates.

Fixed income investments come in a very wide variety of guises. In the Diversified Growth Fund, we invest in bonds and other debt obligations issued by governments and companies, as well as loans issued by banks and other financial institutions. We own these directly, and also through our investments in open-ended funds (either managed by Baillie Gifford or by third parties) or via listed closed-end funds.

The extent to which the price of any of these investments rises or falls in response to moves in interest rates or shifts in bond yields depends on several things. This could be the currency in which they are denominated: a rise in interest rates in one country has far more impact on that home market than on bond markets in other countries. It could be how investors assess the borrower's creditworthiness: as a general rule, the lower a bond's credit rating, the less sensitive the bond's price will be to a change in official interest rates. It will also turn on whether or not a bond pays a fixed amount of interest (and how long that will continue for) or whether its interest payments 'float' up or down with the prevailing level of interest rates.

We expect US interest rates to rise this year. The US economy has been growing steadily for several years, creating jobs and pulling more people into the labour market. There is little sign of inflation, and wages are rising only slowly. However, with a functioning, well-capitalised banking system, good economic growth and a thriving labour market, there seems less and less reason to hold interest rates at emergency levels (the official target range for overnight interest rates set by the US Federal Reserve is between 0% and 0.25%).

The timing and extent of any upwards move is not clear. Whilst it may happen over the summer, or it may be delayed until the autumn, current market expectation is that interest rates will rise only a little way, and do so gently over a long period of time. Consequently, longer-dated US government bonds yield less than 2%. In other words, investors expect interest rates to average less than 2% over the next ten years and beyond. Of course this is possible, but we think it is unlikely. If interest rates have to rise more quickly and to a higher level, bond markets in the US could be challenged and, because the US is so important to global financial markets, there could be knock-on consequences elsewhere.

We own no US government bonds in the Diversified Growth Fund; indeed we no longer own any bonds issued by governments of developed economies. However, we continue to own bonds issued by Brazil, Colombia and Mexico and retain a significant holding in the Baillie Gifford Emerging Markets Bond Fund. Together these investments amount to 10% of the Fund.

The Diversified Growth Fund also has allocations to high yield credit (15%) and structured finance (13%), which together might imply a significant exposure to interest rates. However, most of the holdings (approximately three-quarters) are floating rate instruments such as senior secured loans and collateralised loan obligations. In both cases, returns should improve as interest rates rise. The remainder is in short-dated fixed-rate, high yield corporate bonds which are typically less interest rate sensitive.

The remaining source of clear, interest rate exposure in the portfolio is our allocation to investment grade bonds. This amounts to 6% of the Fund, all represented by the holding in the Baillie Gifford Worldwide Global Credit Fund. This is a US-dollar-denominated fund with interest rate sensitivity roughly equal to that of a medium-dated government bond.

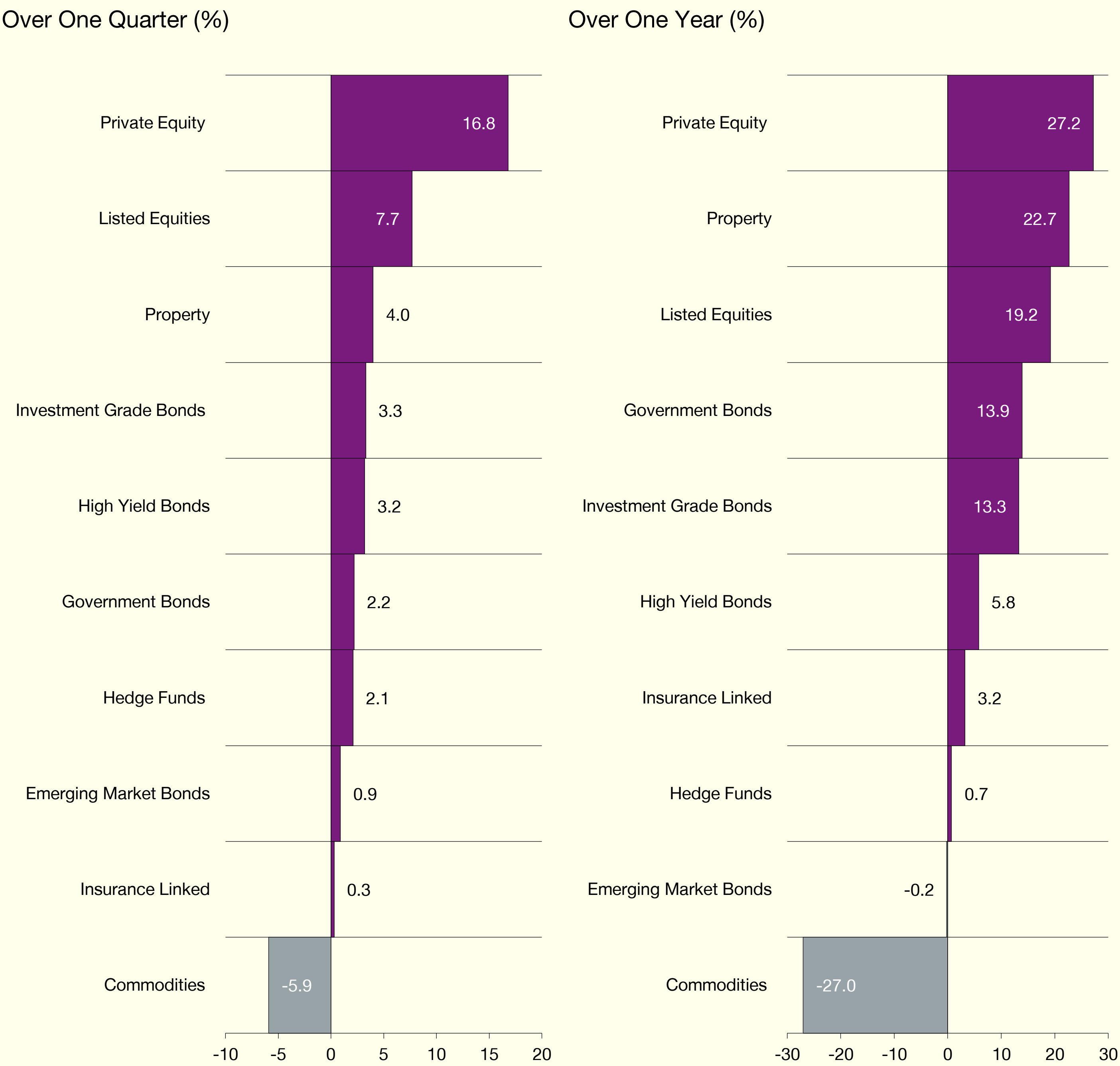
Therefore, overall, our explicit exposure to the risk of a rapid rise in US interest rates is actually quite small. However, the easy monetary policy of recent years was deliberately put in place to support financial asset valuations and, if it is removed, many types of investment may struggle, not only bonds. With this in mind, we have established a short position, by selling futures, in US 10 Year Treasury bonds. The size of this position is equivalent to 2.5% of the Fund. Should interest rates rise by more than expected in the US, and longer-dated bonds fall in value, this short position should generate a profit that can be set against any losses experienced elsewhere in the portfolio.

Futures

Futures allow investors to express views on where market prices might be at some later date. Only a small amount of money changes hands when a future is bought or sold, but the parties to the contract are fully exposed to subsequent market moves.

We use exchange traded futures either to gain exposure to asset classes or to hedge existing investments against adverse market movements. When we buy a future to obtain asset class exposure, we notionally allocate an amount of cash to the futures position and its asset allocation weight is therefore shown at the economic exposure it gives us. When we sell a future for hedging purposes, the asset allocation weight reflects the small amount of money that changed hands at the outset of the transaction plus any unrealised change in value due to subsequent market movements.

Market Background - Asset Class Returns



% 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%.

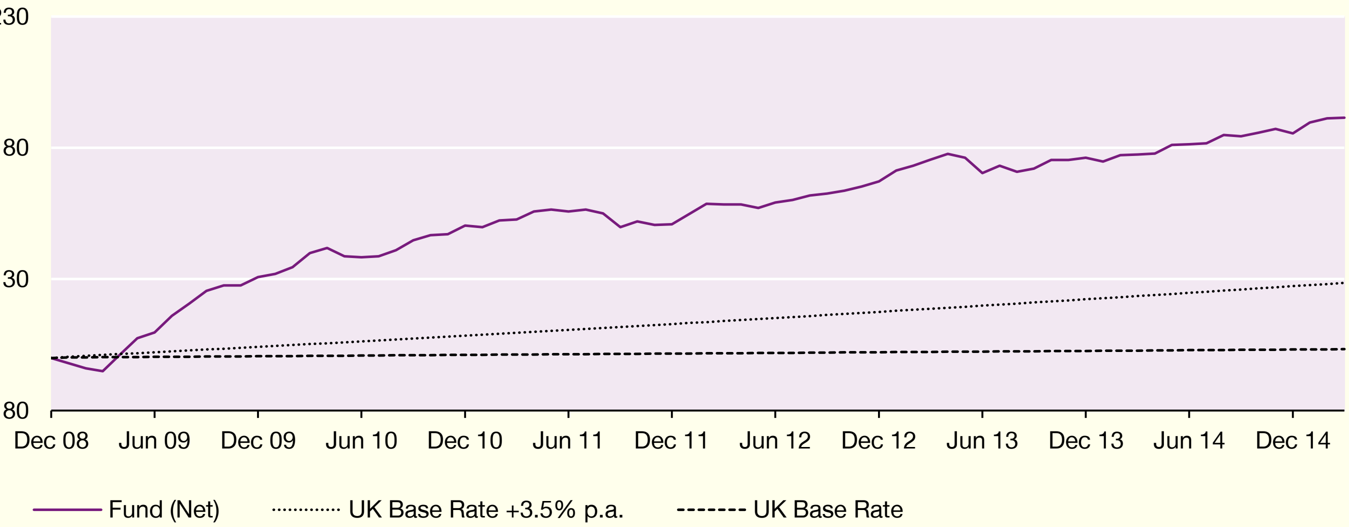
Performance

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.)	6.5	0.5	4.0
Three Years (p.a.)	6.5	0.5	4.0
One Year	7.9	0.5	4.0
Quarter	3.2	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	4.4

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

Contributions to Performance

Quarter to 31 March 2015

Ave. Weight %	20.6	-0.2	13.5	8.2	2.4	4.3	6.4	13.1	2.0	0.6	5.1	6.9	5.6	0.0	11.5	100.0
Return %	6.4	0.6	2.2	3.3	10.7	4.8	2.5	0.8	5.1	3.7	0.2	0.3	-0.2	2.3	-1.5	3.4

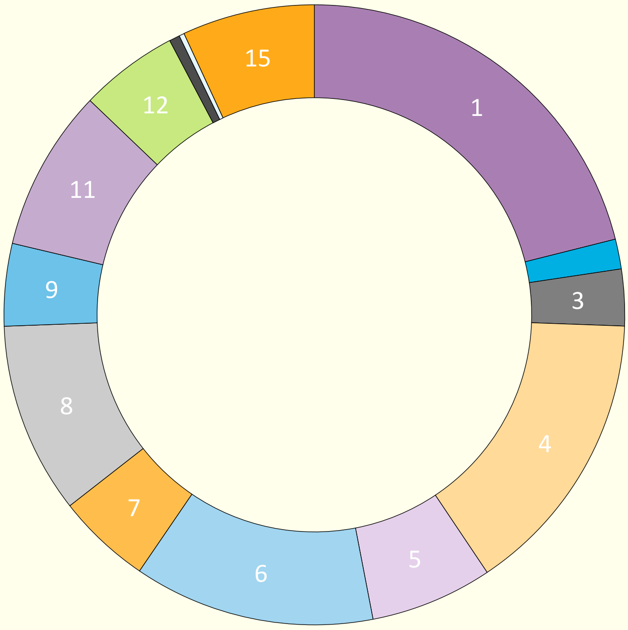
One Year to 31 March 2015

Ave. Weight %	18.2	-0.1	7.4	2.3	13.0	7.7	12.8	4.5	4.9	11.3	2.7	5.9	2.2	0.6	6.7	100.0
Return %	11.3	1.1	13.9	36.9	1.8	5.5	3.1	10.1	6.6	1.5	10.2	0.4	6.7	8.8	0.1	8.6

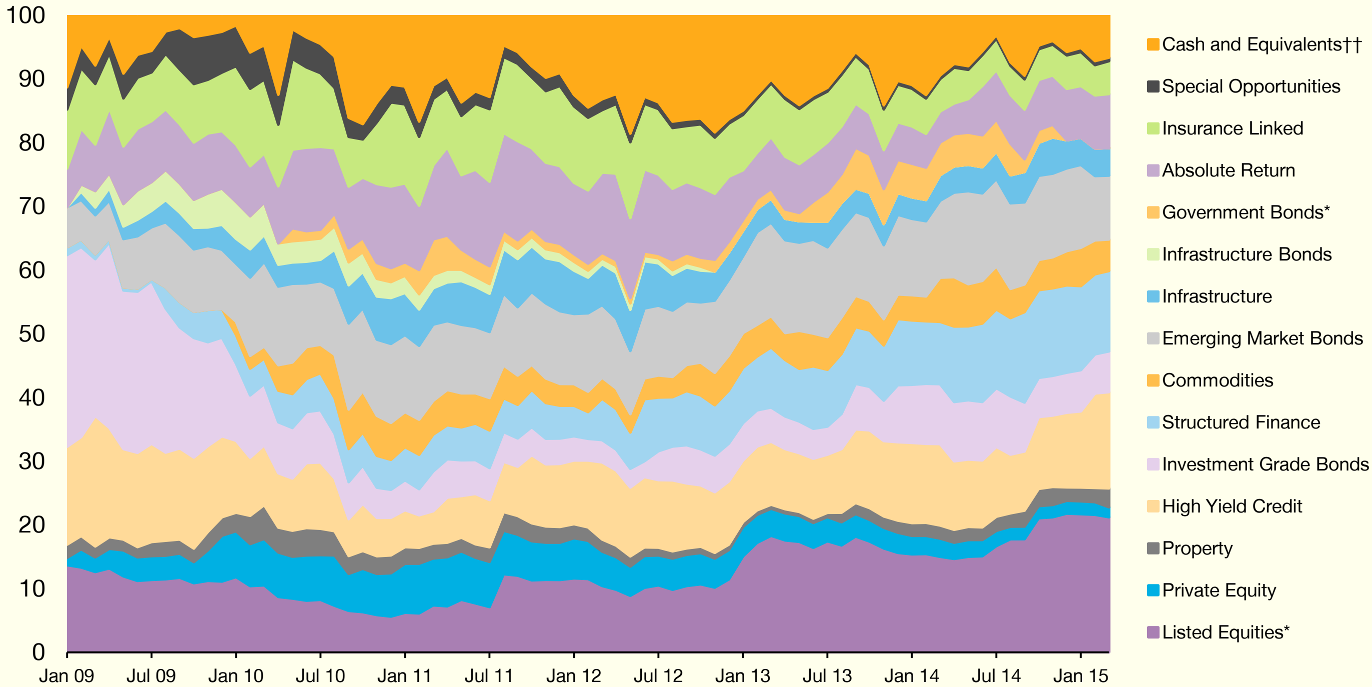
Source: Statpro/Baillie Gifford, gross of fees in sterling. Totals may not sum due to rounding

Asset Allocation at Quarter End

		(%)
1	Listed Equities*	21.2
2	Private Equity	1.6
3	Property	3.0
4	High Yield Credit	15.1
5	Investment Grade Bonds	6.4
6	Structured Finance	12.6
7	Commodities	4.9
8	Emerging Market Bonds	10.0
9	Infrastructure	4.3
10	Government Bonds*	0.0
11	Absolute Return	8.5
12	Insurance Linked	5.2
13	Special Opportunities	0.5
14	Active Currency†	-0.3
15	Cash and Equivalents	6.9
	Total	100.0



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



* Exchange traded futures are used either to gain exposure to asset classes (with all such 'long' positions fully backed by cash and therefore shown at their exposure weight) or to hedge existing investments against adverse market movements (with all such 'short' positions shown at their net unrealised profit or loss). As at 31 March 2015, the allocation to listed equities includes a long position in European dividend futures (equivalent to 2.9% of Fund) and a short position in S&P 500 Index futures (equivalent to 3% of Fund) as a hedge against a fall in equity markets. The allocation to government bonds includes a short position in US 10 Year Treasury futures (equivalent to 2.6% of Fund) as a hedge against portfolio exposure to interest rate risk.

** 30th December 2008

† This number shows the net unrealised profit and loss of the active currency positions in the Fund as at 31st March 2015

†† Includes net active currency position

Summary Risk Statistics (%)

Predicted Volatility	6.3

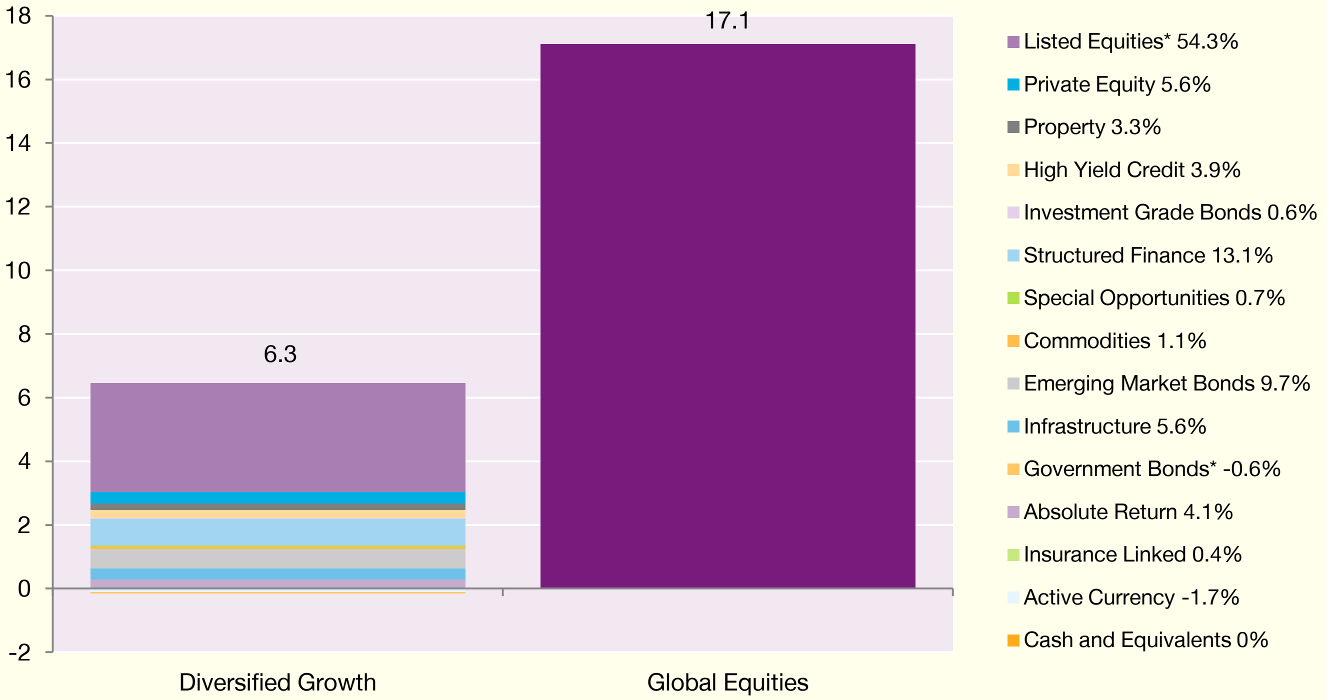
Source: Baillie Gifford, Moody's Analytics UK Limited

Market sentiment and short-term direction continue to be heavily swayed by expectations of monetary policy

Financial markets are assuming US interest rates will rise slowly and by a small amount. It will be disruptive if they have to rise more rapidly, or to a higher level, than currently anticipated

The portfolio remains broadly diversified. We moved to a slightly more cautious asset allocation by reducing equity exposure and hedging some of our bond investments against an adverse move in US bond markets

Risk Attribution



Source: Baillie Gifford & Co, Moody's Analytics UK Limited
Total may not sum due to rounding
* As at 31 March 2015, the allocation to listed equities includes a long position in European dividend futures (equivalent to 2.9% of Fund) and a short position in S&P 500 Index futures (equivalent to 3% of Fund) as a hedge against a fall in equity markets. The allocation to government bonds includes a short position in US 10 Year Treasury futures (equivalent to 2.6% of Fund) as a hedge against portfolio exposure to interest rate risk.

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	5.9
Baillie Gifford Global Income Growth Fund C Accum	5.0
BG Worldwide Japanese Fund C GBP Acc	2.9
Baillie Gifford Pacific Fund C Accum	2.1
Baillie Gifford LTGG Fund C Accum	2.0
Euro Stoxx 50 Index Dividend Futures 16	0.6
Euro Stoxx 50 Index Dividend Futures 15	0.6
Euro Stoxx 50 Index Dividend Futures 17	0.6
Euro Stoxx 50 Index Dividend Futures 18	0.5
Fondul Proprietatea	0.4
Euro Stoxx 50 Index Dividend Futures 19	0.4
Euro Stoxx 50 Index Dividend Futures 20	0.3
Damille Investments II	0.0
S&P 500 Index Future Jun 15 (Short)	0.0
Total Listed Equities	18.2

Private Equity	
Graphite Enterprise Trust	0.3
NB Private Equity Partners	0.3
HarbourVest Global Private Equity	0.3
Electra Private Equity	0.3
Better Capital	0.2
JZ Capital Partners	0.1
Better Capital 2012	0.1
Dunedin Enterprise Investment Trust	0.1
Eurazeo	0.1
Total Private Equity	1.6

Property	
Land Securities	0.6
Hammerson	0.6
Tritax Big Box REIT	0.5
LondonMetric Property	0.3
British Land	0.3
UK Commercial Property Trust	0.3
Target Healthcare REIT	0.1
Ediston Property Investment Company	0.1
Japan Residential Investment Company	0.1
Terra Catalyst Fund	0.0
Invista 9% 2016 Pref	0.0
Total Property	3.0

Asset Name	Fund %
High Yield Credit	
Baillie Gifford High Yield Bond Fund C Gross Acc	4.6
Credit Suisse Nova (Lux) Global Senior Loan Fund	1.5
Henderson Secured Loans Fund	1.5
NB Global Floating Rate Income Fund	1.0
ING (L) Flex Senior Loans Fund	0.8
NB Distressed Debt Investment Fund EL	0.4
Nuveen Floating Rate Income Fund	0.4
Eaton Vance Floating Rate Income Trust	0.3
Invesco Senior Income Trust	0.2
Voya Prime Rate Trust	0.2
BlackRock Floating Rate Income Trust	0.2
Pioneer Floating Rate Trust	0.2
CVC Credit Partners European Opportunities GBP	0.2
Apollo Senior Floating Rate Fund	0.2
Nuveen Senior Income Fund	0.1
Eaton Vance Senior Income Trust	0.1
Sequoia Economic Infrastructure Income Fund	0.1
CVC Credit Partners European Opportunities EUR	0.1
APX Group Inc 6.375% 2019	0.1
Trinseo 8.75% 2019	0.1
T-Mobile USA 6.542% 2020	0.1
Time Inc 5.75% 2022	0.1
Pacific Drilling 5.375% 2020	0.1
Unitymedia Hessen 5.5% 2023	0.1
Avaya 7% 2019 144A	0.1
Community Health Systems 7.125% 2020	0.1
MEG Energy 6.375% 2023	0.1
Schaeffler Finance 4.75% 2021	0.1
Frontier Communications 7.625% 2024	0.1
Terex Corp 6% 2021	0.1
Arcelormittal 5.25% 2020	0.1
Tenet Healthcare 8% 2020	0.1
Reynolds Group 5.75% 2020	0.1
Commerzbank 8.125% 2023	0.1
Atwood Oceanics Inc 6.5% 2020	0.1
Valeant Pharmaceuticals 7.5% 2021 144A	0.1
Windstream Corporation 7.75% 2021	0.1
Post Holdings 6.75% 2021	0.1
Navient 5.5% 2019	0.1
Linn Energy 8.625% 2020	0.1
Icahn Enterprises 4.875% 2019	0.1
Alcoa 5.72% 2019	0.1

Asset Name	Fund %
MGM Resorts 7.75% 2022	0.1
Rite Aid 9.25% 2020	0.1
Clear Channel Worldwide 7.625% 2020	0.1
Citgo Petroleum 6.25% 2022 144A	0.1
Peabody Energy Group 6% 2018	0.1
First Trust Senior Floating Rate	0.1
DPL 7.25% 2021	0.1
Genon Energy Inc 7.785% 2017	0.1
HarbourVest Senior Loans Europe	0.0
Total High Yield Credit	15.1
Investment Grade Bonds	
BG Worldwide Global Credit Fund C USD Acc	6.4
Total Investment Grade Bonds	6.4
Structured Finance	
Galene Fund	3.8
Metreta Fund	3.0
Julius Baer Multibond ABS Fund	2.7
Sorrento Park CLO A-1	0.4
TwentyFour Income Fund	0.4
German Residential Funding 2013-1 D	0.3
Babson CLO 2014-2 A1	0.2
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
Granite 2007-1 3M2	0.2
Blackstone/GSO Loan Financing Fund	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
Babson CLO 2014-2 B1	0.0
Carlyle CLO 2014-3 A-2A	0.0
Total Structured Finance	12.6
Commodities	
Source Physical Gold P-ETC	2.0
ETFS Physical Palladium	0.9

Asset Name	Fund %
Source Physical Palladium P-ETC	0.7
Source Physical Platinum P-ETC	0.6
ETFS Physical Platinum	0.5
ETFS Brent Crude	0.3
Total Commodities	4.9
Emerging Market Bonds	
Baillie Gifford Emerging Mkts Bond Fd C Gross Acc	7.6
Brazil CPI Linked 6% 15/08/2050	0.8
Mexico IL 4% 15/11/2040	0.7
Brazil CPI Linked 6% 15/08/2022	0.4
Brazil CPI Linked 6% 15/05/2045	0.2
Colombia 7.5% 26/08/2026	0.2
Colombia 7% 04/05/2022	0.1
Total Emerging Market Bonds	10.0
Infrastructure	
EDP Renovaveis	0.7
3i Infrastructure	0.6
Greencoat UK Wind	0.5
OHL México	0.4
Renewables Infrastructure Group	0.3
National Grid	0.3
John Laing Environmental Assets Group	0.3
NextEnergy Solar Fund	0.3
Foresight Solar Fund	0.3
Bluefield Solar Income Fund	0.2
Terna	0.2
Snam Rete Gas	0.2
Total Infrastructure	4.3
Government Bonds**	
US 10yr Note Future Jun 15 (Short)	0.0
Total Government Bonds	0.0
Absolute Return	
Allianz Merger Arbitrage Strategy	2.9
Aspect Diversified Trends Fund	2.4
Amundi Volatility World Equities	1.1
Ferox Salar Convertible Absolute Return Fund	0.9
Winton Futures Fund	0.6
MS Broadmark Tactical Plus UCITS Fund	0.5
Boussard & Gavaudan	0.2

Asset Name	Fund %
Total Absolute Return	8.5

Insurance Linked	
Everglades Re 2014-1 A	0.8
Tar Heel Re 2013-1 A	0.6
Merna Re 2015-1	0.5
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
Tradewynd Re 2014-1 3B	0.3
Pelican Re 2012-1 A	0.2
CatCo Reinsurance Opportunity Fund	0.2
Blue Capital Reinsurance Holdings Fund	0.1
East Lane Re V 2012 B	0.1
Tradewynd Re 2013-2 3B	0.1
Blue Capital Global Reinsurance Fund	0.1
Vitality Re VI 2015-1 A	0.1
MultiCat Mexico 2012-1 B	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	5.2

Special Opportunities	
Juridica Investments	0.2
Burford Capital	0.2
DP Aircraft I	0.1
Doric Nimrod Air Two	0.1
Total Special Opportunities	0.5

Active Currency†	
Total Active Currency	-0.3

Cash and Equivalents	
UK T Bills	4.6
BG Worldwide Active Cash Plus Fund C GBP Acc	1.8
Cash on Deposit	0.5
Total Cash and Equivalents	6.9

Total	100.0

Exchange traded futures are used either to gain exposure to asset classes (with all such ‘long’ positions fully backed by cash and therefore shown at their exposure weight) or to hedge existing investments against adverse market movements (with all such ‘short’ positions shown at their net unrealised profit or loss).

* As at 31 March 2015, the allocation to listed equities includes a long position in European dividend futures (equivalent to 2.9% of Fund) and a short position in S&P 500 Index futures (equivalent to 3% of Fund) as a hedge against a fall in equity markets.

** As at 31 March 2015, the allocation to government bonds includes a short position in US 10 Year Treasury futures (equivalent to 2.6% of Fund) as a hedge against portfolio exposure to interest rate risk.

† The number shown against active currency reflects the net unrealised profit or loss of open positions in the Fund as at 31 March 2015.

Fund Name	Update
Baillie Gifford Diversified Growth Fund	This quarter, we reduced the portfolio's exposure to US equities and US government bond yields by, respectively, taking short positions in S&P 500 Index futures and US 10 Year Treasury futures. Prior to these transactions, the Fund had a 5% position in US equities (on a look-through basis), and had exposure to US interest rates through investment grade and high yield credit positions, emerging market government bond investments as well as through equities, albeit less directly. These short futures positions reduced the US equity weighting to around 2% and also lowered the Fund's US rate duration. In establishing the S&P 500 hedge, we took account of a view that the US stock market is more highly valued than other regional markets, while also being most exposed to both a change in monetary policy and pressure on corporate profits brought about by the strength of the US dollar. We further reduced our allocation to listed equities by selling our 1% long Eurostoxx position during the quarter. This had been purchased last autumn, since when European stock markets have rallied significantly. One of the arguments for reducing equity exposure, and US equity exposure in particular, is that interest rates may soon rise in the US. This could also prove a difficult environment for US bonds and for fixed income markets globally. We therefore established a short position on US 10 Year Treasury bonds. We are exposed to movements in interest rates in various different ways across the portfolio, notably through our holdings in corporate bonds as well as our emerging market government bonds. This short position in US Treasury bonds should provide general protection against an adverse move in US interest rates and bond yields. In terms of economic exposure, it is equivalent to 2.5% of the Fund. Further, we invested 3% of the portfolio in a basket of US high yield bonds, following an indiscriminate sell-off on the back of the sharp fall in the oil price which raised concerns about the credit-worthiness of energy-related issuers. The aforementioned US 10 Year Treasury hedge allowed us to take advantage of this increase in spreads without bearing the associated interest rate risk. We also took the opportunity to reduce our exposure to emerging market government bonds, with reductions to the Colombian and Mexican bond holdings, the complete sale of Peru and the complete sale of a dollar bond issued by the African Export Import Bank. These transactions were all on valuation grounds. Elsewhere in the portfolio, we achieved a small net increase in the property allocation as we sold the holding in LEG Immobilien, a German residential REIT, while adding to or buying a number of UK commercial property REITS (the new names were British Land, Land Securities and UK Commercial Property Trust). We also made small additions to some of the renewable energy and US loan funds and were profitably active, albeit on a small scale, in oil markets with first an addition and then reductions in a Brent crude oil ETF.

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	16	Companies	1	Companies	1
Resolutions	103	Resolutions	2	Resolutions	3

During the quarter, there were two trips to Japan, and many more meetings with European companies

Stewardship Codes now seem to be proliferating

In the US, shareholders continue to use their voice to influence corporate governance practices

Company Engagement

Engagement Type	Company
Corporate Governance	Sony Corp
AGM or EGM Proposals	CATCo-Re Ltd., CrediCredit Suisse Nova Lux Global Loans Fund, EDP Renovaveis, JZ Capital Partners Limited, Qunar

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

High activity levels within the team in the opening quarter of 2015 reflect the growing importance of corporate governance to companies and the broader number of countries acknowledging its significance. During the quarter, there were two trips to Japan, and many more meetings with European companies. We also witnessed a shareholder-led initiative in the US aimed at influencing the content of AGM agendas – so-called proxy access. Meanwhile, this growth in activity continues to add to our workload, so we have recruited a senior analyst who joined the team in March.

As a firm, Baillie Gifford has substantial exposure to Japanese equities and, for many years, we have been involved in conversations discussing governance practices in Japan. However, there has recently been a notable change there in terms of attitude and urgency. With government and regulatory backing, the Japanese Stewardship Code was introduced in 2014 and a Corporate Governance Code has been implemented this year. These developments have changed the openness and frequency of company engagement that is focused on governance. To add some context, as recently as 2007 we had difficulty translating the term *'corporate governance'* into Japanese. Now we have senior corporate figures, such as the CFO of Sony, asking for our perspective on how to implement good governance practices. Indeed, our head of governance was among the presenters at a recent high-profile conference in Japan. Furthermore, it is encouraging that both small and large companies are equally engaged in the discussions.

Stewardship Codes now seem to be growing in popularity. Prior to recent developments in Japan, the UK had set the trend in 2010, and we have recently had a stewardship consultation document from the Hong Kong Securities and Futures Commission. Other countries are discussing the introduction of a code but we are yet to see any content. It will be interesting to see if this momentum continues and how the concept of Stewardship expands in developed and emerging markets.

Elsewhere, we have been receiving a growing number of engagement requests from European companies with non-executive directors and chairmen providing us with more opportunities to discuss governance topics. This is another reason to feel positive about the progress being made although, at present, these discussions are primarily focused on the AGM agenda. Next year we will be more explicit in stating that we want to incorporate broader engagement on strategic and operational matters. It is valuable to be able to speak directly to a chairman or a member of the board.

In the US, shareholders continue to use their voice to influence corporate governance practices. Proxy access proposals seeking amendments to company bylaws to allow long-term shareholders to nominate board candidates are developing into the main issue ahead of the 2015 voting season. We are supportive in principle and are engaging with investee companies in order to implement appropriate policies for each.

And finally, as already mentioned, with corporate governance assuming ever greater importance, we have moved to strengthen our team. Michelle O'Keefe has joined as an analyst. She brings a background in climate change, resource governance and European resource policy assessments.

Company	Engagement Report
Sony Corp	We met the CFO to discuss governance matters and the challenges stemming from the recent cyber hack event. We discussed the implications for the company of the introduction of the Stewardship Code and the consultation about the Japanese Corporate Governance Code. There is no direct translation for the word 'engagement' and we explained that our meeting we were having to discuss ESG issues was an engagement. With regards to cyber risk, this is now on the board's agenda. Our engagement with the company on both subjects will continue.

Votes Cast in Favour

Companies	Voting Rationale
Allianz Merger Arbitrage Strategy, CVC Credit Partners European Opportunities EUR, CVC Credit Partners European Opportunities GBP, CatCo Reinsurance Opportunity Fund, Credit Suisse Nova (Lux) Global Senior Loan Fund, DP Aircraft I, Eaton Vance Floating Rate Income Trust, Ediston Property Investment Company, Electra Private Equity, Fondul Proprietatea, Foresight Solar Fund, ING (L) Flex Senior Loans Fund, Nuveen Floating Rate Income Fund, Nuveen Senior Income Fund, Target Healthcare REIT, UK Commercial Property Trust	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
JZ Capital Partners	EGM 26/02/15	O.1	We opposed amendments to the company's investment policy as we do not believe they are in shareholders' best interests.

Companies	Voting Rationale
JZ Capital Partners	We opposed the amendments to the Articles of Association.

Votes Abstained

Company	Meeting Details	Resolution(s)	Voting Rationale
Credit Suisse Nova (Lux) Global Senior Loan Fund	OGM 17/03/15	1	We abstained on the resolution to approve the Report of the Board because of a lack of disclosure.
Credit Suisse Nova (Lux) Global Senior Loan Fund	OGM 17/03/15	2	We abstained on the resolution to approve the Auditor report because of a lack of disclosure.
Credit Suisse Nova (Lux) Global Senior Loan Fund	OGM 17/03/15	3	We abstained on the resolution to approve the Annual report because of a lack of disclosure.

Votes Withheld

We did not withhold on any resolutions during the period.

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	80,073,058	0.0	80.4	19.6	66,219	55,251	10,968	59,440	0	6,778	0
JP Morgan Chase Bank NA	51,822,462	0.0	90.3	9.7	51,035	46,773	4,262	41,195	0	9,839	0
Citigroup Inc	36,217,659	0.0	8.3	91.7	25,352	2,116	23,236	18,933	0	6,419	0
Stifel Nicolaus Europe Ltd	34,857,657	25.3	74.7	0.0	26,053	26,053	0	18,237	0	7,816	0
ITG Europe Ltd (POSIT-MTP) (Crossing Network)	32,217,496	0.6	0.0	99.4	9,665	0	9,665	9,665	0	0	0
Jefferies International (Holdings) Ltd	21,060,426	26.1	49.1	24.7	12,163	10,349	1,814	10,093	0	2,070	0
Canaccord Genuity Limited	15,090,096	0.0	100.0	0.0	15,090	15,090	0	4,527	0	10,563	0
Numis Securities Ltd	14,010,618	0.0	89.1	10.9	13,209	12,143	1,067	9,807	0	3,402	0
Royal Bank of Canada	4,708,301	100.0	0.0	0.0	0	0	0	0	0	0	0
Investec Bank plc	4,078,830	0.0	24.3	75.7	3,153	991	2,161	2,855	0	297	0
Other Brokers *	15,283,215	20.1	16.4	63.5	9,827	2,509	7,318	7,296	0	2,531	0
Total	309,419,817	7.2	58.7	34.1	231,766	171,275	60,491	182,051	0	49,715	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	7.2	58.7	34.1	100.0	73.9	26.1	78.5	0.0	21.5	0.0
BG Average *	100.0	5.2	21.5	73.3	100.0	44.2	55.8	90.0	0.0	10.0	0.0

Baillie Gifford Diversified Growth Fund Average Commission Rate	0.0749 %
BG Average *	0.0448 %
Total commission paid as a percentage of the value of the fund	0.0039 %

* 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	40,451,834	0.0	2.2	97.8	18,988	2,721	16,268	17,688	0	1,301	0
Global Alpha Growth Fund	90,403,412	5.8	30.3	63.8	46,475	21,201	25,274	43,527	0	2,948	0
Worldwide Japanese Fund	754,182,218	0.0	48.1	51.9	548,665	362,597	186,068	483,219	0	65,446	0
Pacific Fund	54,953,080	0.0	47.8	52.2	71,298	52,988	18,310	56,008	0	15,290	0
Long Term Global Growth Fund	15,788,683	0.0	33.5	66.5	5,483	2,191	3,292	5,483	0	0	0

Comparative Analysis

Fund	Average Commission Rate
Global Income Growth Fund	0.05
Global Alpha Growth Fund	0.05
Worldwide Japanese Fund	0.07
Pacific Fund	0.13
Long Term Global Growth Fund	0.03

Firm-Wide Comparator	Average Commission Rate
Global	0.04
Global	0.04
Japan	0.04
Pacific (ex Japan)	0.05
Global	0.04

Direct Currency Transactions

Counterparty	Spot Transaction Value* (GBP)	Forward Transaction Value (GBP)	Total (GBP)
HSBC	0	3,641,836,401	3,641,836,401
Deutsche Bank AG London	0	3,430,023,127	3,430,023,127
Barclays Bank plc	0	2,803,734,214	2,803,734,214
National Australia Bank	0	2,014,079,180	2,014,079,180
Royal Bank of Canada	0	1,214,713,656	1,214,713,656
Royal Bank of Scotland plc	0	914,123,177	914,123,177
Bank of New York Mellon (Custodian)	478,761,313	0	478,761,313
UBS	86,902,029	0	86,902,029
Brown Brothers Harriman	19,035,280	0	19,035,280
Northern Trust Company	14,895,510	0	14,895,510
Total	599,594,132	14,018,509,754	14,618,103,886

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

Direct Bond Transactions

Counterparty	Trading Value (GBP)
Deutsche Bank AG	109,747,774
Citigroup Inc	79,676,414
Jefferies International (Holdings) Ltd	67,290,357
Credit Suisse	55,914,693
Merrill Lynch International	55,790,044
BBVA Banco Bilbao Vizcaya Argentaria S.A	55,369,129
Morgan Stanley	34,913,991
JP Morgan Chase Bank NA	32,064,790
Aon Capital Markets Ltd	27,114,967
Royal Bank of Canada	20,602,542
BNP Paribas	6,615,944
Wells Fargo Securities LLC	5,927,436
Goldman Sachs & Co	5,773,015
Numis Securities Ltd	4,153,344
Total	560,954,443

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

Direct Futures Transactions

Counterparty	Consideration Paid*	Commission Paid
UBS AG London	0	19,888
Total	0	19,888

*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

IA 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 Association (IA) 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.

	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	0.01	0.02	0.91

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		18,467	
Accrued Interest		0	
		18,467	
Total Sales	0	0	0
Accrued Interest	0		
	0	0	0
Total Net Investment/Disinvestment			18,467
Net Accrued Interest			0
Total			18,467

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							
27/01/15 27/01/15	Baillie Gifford Diversified Growth Pension Fund B3CRJ02	9,575.639 GBP 1.93		18,467		26,151,484.025	40,255,220
Total Purchases				18,467			
Total Net Investment/Disinvestment UK							18,467
Total Net Investment/Disinvestment Diversified Growth							18,467
Total							18,467

Asset Name	Nominal Holding	Market Price	Book Cost (GBP)	Market Value (GBP)	Fund (%)
Diversified Growth					
Baillie Gifford Diversified Growth Pension Fund	26,151,484.025	GBP 1.94	40,255,220	50,684,191	100.0
Total Diversified Growth			40,255,220	50,684,191	100.0
Total			40,255,220	50,684,191	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 31 December 2014 (GBP)	Net Investment/ Disinvestment (GBP)	Capital Gain/Loss (GBP)	Market Value 31 March 2015 (GBP)
Diversified Growth				
Baillie Gifford Diversified Growth Pension Fund	49,084,047	18,467	1,581,677	50,684,191
Total Diversified Growth	49,084,047	18,467	1,581,677	50,684,191
Total	49,084,047	18,467	1,581,677	50,684,191

	(GBP)	Book Cost (GBP)	Market Value (GBP)
As at 31 December 2014			
Diversified Growth		40,236,753.73	49,084,047.19
		40,236,753.73	49,084,047.19
Income			
Management Fee Rebate	18,466.62		
	18,466.62		
Net Total Income and Charges		18,466.62	18,466.62
Change in Market Value of Investments		0.00	1,581,677.38
As at 31 March 2015		40,255,220.35	50,684,191.19
Of which:			
Diversified Growth		40,255,220.35	50,684,191.19
Total		40,255,220.35	50,684,191.19

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