Baillie Gifford™

Monthly Income
Q1 investment update

April 2025

Investment manager Jon Stewart and investment specialist Tom Danaher give an update on the Monthly Income Fund covering Q1 2025.

Your capital is at risk. Past performance is not a guide to future returns.

Tom Danaher (TD): Welcome to the Monthly Income Fund update for the first quarter of 2025. My name's Tom Danaher, I'm an investment specialist here at Baillie Gifford. I'm delighted to be joined today by Jon Stewart. Jon has been closely involved with the Monthly Income Fund since joining Baillie Gifford five years ago and became a co-manager of the Fund in January this year.

Jon, let's kick straight off with performance. We've seen a marked rise in market volatility since mid-February and many of last year's market trends have reversed since the start of the year. So, against that backdrop, how has the Monthly Income Fund fared in performance terms?

Jon Stewart (JS): I mean, you're right, it's been a tremendously volatile quarter. So 2025 really began the way that 2024 ended with that impressive stock market rally. But that reversed pretty sharply once we got to mid-February onwards, when it became apparent to the market that the new US administration really was going to follow through on their campaign promise to impose significant tariffs on other countries, including their neighbours and allies.

Now, against that turbulent backdrop, I'm pleased to report that the Monthly Income Fund delivered a positive total return of 0.6 per cent.

TD: So, a modest positive total return since the start of the year amid some wild reversals in market trends. What's driven performance since the start of the year?

JS: I mean, I think for quite a long time now, the message to clients has been that the performance of the Fund has really been dominated by the equity portfolio. And that makes a lot of sense because for the last two or three years, as interest rates have been rising, that's been a headwind to performance for many of the other asset classes, such as bonds, property and infrastructure.

Now, interestingly, 2025 so far looks nothing like that at all. So the sell-off in equity markets means that the equity portfolio has actually underperformed the other asset classes, all of which have actually shown some pretty remarkable resilience year to date.

So, the broader message for this quarter would probably be that it seems like a long period of equity dominance of returns has ended and actually the diversification benefits of the Monthly Income Fund are now beginning to shine through.

TD: So, for multi-asset investors like ourselves, there is life beyond the equity market. So, that covers performance. We'll turn now to positioning. And the Monthly Income Fund has around a third invested in equities, a third in bonds and a third in real assets, so property and infrastructure. How has the asset allocation changed during the first quarter of the year?

JS: So, as you say, the portfolio at the moment really feels quite well balanced between all three of those. Now, over the quarter, the changes we made, we added a couple of percentage points to the equity portfolio within the Monthly Income Fund. And that was really driven by the start of the correction in equity markets.

Now, for context, we are still modestly underweight versus our strategic allocation for equities, which in part reflects the relatively low yield that the asset class offers when we compare it to the other asset classes. Now, that said, it's always worth remembering the impressive levels of income growth that our equity portfolio is delivering and the important role that that plays in the portfolio as a whole.

We also added a little bit to the property portfolio, which is the part of Monthly Income that I manage. Now, the thinking there was that as interest rates begin to settle down, that creates scope for property values to stabilize, and that should be positive for those investments. Finally, we also added a little bit to the emerging market hard currency bonds portfolio, where we saw some interesting opportunities, particularly relative to the developed market equivalents. And all of those transactions were funded from cash.

TD: So you mentioned there, Jon, that we've added a bit to property, an asset class where we're now overweight against our strategic asset allocation. And it would be remiss of me not to delve a bit further into that area of the portfolio, given that this is your area and you are our guru on all things real estate. So what's been happening in the Monthly Income Fund’s property allocation lately?

JS: So I think the thing that I've been particularly excited about in recent months in the property world has just been the value opportunity in the UK listed property market. It just feels like, particularly even for the largest, highest quality businesses, that the public markets just aren't recognising the value on offer.

Now, unsurprisingly, we've started to see other parties step up to the plate who do. And so, there's been an uptick in merger and acquisition proposals, particularly from private equity. Now, within our portfolio, the most relevant name is a business called Assura. Assura is a specialist landlord. It's focused on healthcare real estate. So, it owns GP surgeries and NHS facilities around the UK, as well as some of the equivalent properties in Ireland. It's actually the largest position in the property portfolio for Monthly Income, and it's a position that we added to last year at a point where the shares were yielding around about 8 per cent. Now, over the last year, Assura has been subject to a number of bids from private equity. It's a fast-moving situation that continues to evolve, so we're watching it really carefully. But what I'd say is, unless we see a proposal on the table that we feel fairly reflects the long-term return potential of Assura, we would actually prefer to just continue to own the shares. Because we think that this business is exactly the kind of business that fits really well within the Monthly Income fund.

TD: As you say, a flurry of corporate activity in UK property, not least Assura, your largest holding. You've been out on the road a lot during the first few months of the year, as you often are, meeting the property management companies. So from those various meetings, what are the common themes that are coming up in your conversations with management teams?

JS: I mean, it sounds more glamorous than it is, Tom. But in property, it really is an asset class where it's important to get out there, to go to meet people, to see buildings in order to really figure out what's going on in the market. So, a few weeks ago, I was over in Miami at a major global property conference. I met something like 25 different management teams as well as some industry brokers and other experts.

And I'd say that the common takeaway, the common theme that came through all those meetings was a sense of stabilisation. So it's been a pretty turbulent few years for the asset class as property values adapt to a world of higher interest rates. But it now feels like we've pretty much reached the end of that process. Rents are continuing to grow at pretty healthy levels, more or less across the board. And on top of that, management teams have accepted the new reality and really worked out what it takes to deliver success for their businesses in this higher interest rate world. And so all of that together leaves me feeling actually pretty encouraged and constructive on the asset class.

TD: It's great to hear that management teams are largely adapting to that new normal, as you say, with higher interest rates. Let's spend a bit of time on the outlook now at Fund level, and many of Monthly Income's clients rely on those regular payments to meet their outgoings. So what can you tell us about the outlook for income growth for the remainder of this year?

JS: I mean, the benefit of being invested directly is that we actually have really good visibility on the forward-looking income trajectory for the fund. Now, our current expectation is that for the current calendar year, we should see about a 5 per cent increase to the distributions for the fund.

TD: That's an encouraging story. As you touched on at the beginning, there is no shortage of uncertainty out there, particularly when it comes to global trade policy. And as well as delivering those resilient monthly income payments for clients, the other task that you and your fellow managers face is protecting clients' income and capital from inflation over the long term. Amid all the change that we're seeing in the world at the moment, how are you and your fellow managers thinking about that task?

JS: If I was going to make one point here, I think it would just be the value of diversification. Now, the Monthly Income Fund is well diversified, which means that returns are not going to be dictated by any single asset, company, geography or asset class. And that should be beneficial in this kind of environment that we're moving into.

Now, if I was to take each asset class in turn, maybe starting with equities, the kind of companies that we're invested in are large, well-managed, well-established businesses that we think are capable of delivering inflation-beating dividend growth over the next decade or even longer. Now, you would think, you know, companies like, world-leading innovators like Apple, Microsoft or TSMC and also some of the world's most established consumer brands like a L'Oreal or a Starbucks. These are the sorts of companies that have been through it all before. They've been through challenging market conditions and they've emerged with their competitive advantages intact or enhanced. So, they're really well set up to continue delivering the growth that we expect in the future.

If we then look at the fixed income portfolio, we own a range of both corporate and government bonds across both the developed and the emerging markets. So we're very well diversified there. That portfolio is not just going to dance along to the tune of the UK gilt market.

And then if you look at the real asset portfolios, our property and infrastructure portfolios are both globally diversified. So that's a good start. Now, they are invested through listed companies, which means there'll be an element of volatility, like the broader equity market. But I just emphasize the point that these are hand-picked companies. Portfolios are being put together to deliver the kind of attractive, resilient and growing income that we think fits within the Monthly Income Fund.

So taking a step back, if you look at 2025 and think about all the threats that sit out there, whether it is trade wars and tariffs and deglobalisation and all these threats, that diversification means that I think the Monthly Income Fund is very well set up to navigate those hurdles as they get thrown at us over the course of the year. So for us as managers, what we're doing is really just focusing on the day job - delivering the kind of investments that generate the attractive income our clients are seeking, that grow that income in line with inflation and off a base of capital that maintains its real value over the long term.

TD: Thank you, Jon. That's an upbeat and reassuring note on which to end. So as Jon says there, the Monthly Income Fund is a richly diversified portfolio, one which is ideally placed to weather these uncertain times. Please do get in touch if you have any questions about the Fund. Thank you for tuning in and we hope you'll join us again next time.

Baillie Gifford Monthly Income Fund

Annual past performance to 31 March each year (net%)

	2021	2022	2023	2024	2025
Baillie Gifford Monthly Income Fund B Inc	21.2	7.4	-3.9	6.4	2.3

Source: FE, Revolution. Net of fees, total return in sterling.

Past performance is not a guide to future returns.

The Fund has no target. However you may wish to assess the performance of both income and capital against inflation (UK CPI) over a five-year period. In addition, the manager believes an appropriate performance comparison for this Fund is the Investment Association Mixed Investment 40-85% Shares Sector.

Important information and risk factors

This recording was produced and approved in April 2025 and has not been updated subsequently. It represents views held at the time and may not reflect current thinking.

The views expressed should not be considered as advice or a recommendation to buy, sell or hold a particular investment. They reflect opinion and should not be taken as statements of fact nor should any reliance be placed on them when making investment decisions.

This communication contains information on investments which does not constitute independent research. Accordingly, it is not subject to the protections afforded to independent research, and Baillie Gifford and its staff may have dealt in the investments concerned.

Baillie Gifford & Co and Baillie Gifford & Co Limited are authorised and regulated by the Financial Conduct Authority (FCA). Baillie Gifford & Co Limited is an Authorised Corporate Director of OEICs.

Investment markets can go down as well as up and market conditions can change rapidly. The value of an investment in the Fund, and any income from it, can fall as well as rise and investors may not get back the amount invested.

Market values for illiquid securities which are difficult to trade, or value less frequently than the Fund, such as holdings in weekly or monthly dealt funds, may not be readily available. There can be no assurance that any value assigned to them will reflect the price the Fund might receive upon their sale. In certain circumstances it can be difficult to buy or sell the Fund's holdings and even small purchases or sales can cause their prices to move significantly, affecting the value of the Fund and the price of shares in the Fund.

Derivatives may be used to obtain, increase or reduce exposure to assets and may result in the Fund being leveraged. This may result in greater movements (down or up) in the price of shares in the Fund. It is not our intention that the use of derivatives will significantly alter the overall risk profile of the Fund.

Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +44 (0)131 275 2000 / bailliegifford.com

The Fund's share price can be volatile due to movements in the prices of the underlying holdings and the basis on which the Fund is priced.

Further details of the risks associated with investing in the Fund can be found in the Key Investor Information Document or the Prospectus, copies of which are available at bailliegifford.com.

Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +44 (0)131 275 2000 / bailliegifford.com