

Your capital is at risk. Past performance is not a guide to future returns. This transcript was generated by AI.

Lesley Dunn: After a year that included the announcement of the most sweeping US tariff package in decades, which ultimately turned out to be more bark than bite, market leadership continues to be shaped by one dominant force, and that is generative AI.

Whilst it seems highly likely that we will be revisiting both of these themes in 2026 in the Baillie Gifford Monthly Income Fund, we continue to focus on our core underlying philosophy: looking through the noise and building a diversified and resilient portfolio designed to deliver growing income across cycles and regimes.

The encouraging news is that the underlying backdrop has improved. Inflation has been easing, interest rates have started to come down and labour markets have held up better than many feared. Clearly, risks remain on the horizon for 2026, with recent events in Venezuela a reminder that geopolitics is one of them. But as we closed out 2025, the overall theme was clearly positive.

As a reminder, at the heart of our portfolio is a simple idea. We are not trying to make one big bet on the global economy. We are trying to build a resilient, growing income by owning a portfolio with several dependable and also independent engines. When one engine is a bit quieter, another can take more of the strain. That is how we keep the income line steady whilst preserving capital, through sensible risk management and good levels of actual diversification.

This quarter was a good example of that approach in action. The fund delivered a positive return of around 2 per cent, taking the full-year total return to around 7.5 per cent. Because equity leadership remains concentrated in areas where we are less exposed, relative performance at times has appeared choppy. But underneath that, several of the other asset classes in which we invest, that are designed to provide stability and income, did exactly what we wanted them to do.

The performance of the equities in the portfolio underperformed in the quarter, given our core exposure is centred on durable cash generation and dependable dividends, an area which has been out of favour during a year of narrow, high-growth market leadership. Although the earnings growth and dividends growth for our equity holdings were strong for the most part, the share prices haven't followed. We don't believe that this disconnect can persist indefinitely.

Infrastructure was the strongest positive contributor at the asset class level in 2025 and provides a clear illustration of what we mean by resilience. UK water utilities led performance over the quarter. Whilst these are not particularly exciting, these companies can actually be really powerful compounders. They provide essential services, generate cash and operate within regulatory frameworks that allow for predictable economics. Holdings such as Severn Trent and United Utilities have stood out for the right reasons, reflecting tangible operational and regulatory progress.

Emerging market debt was another asset class that continued to perform strongly, led by our hard-currency portfolio, which delivered mid-double-digit returns over the year. We continue to favour higher-yielding sovereigns where the income earned while holding the bond remains attractive and, in several cases, balance sheets have improved. Crucially, we have maintained discipline, taking profits where bonds have re-rated and the compensation for risk has become less compelling.

Rwanda is a good example of that discipline. We exited the position in full, not because we view the country negatively, but because at prevailing yields we no longer felt adequately compensated for risks that we believe still warrant attention. We redeployed that capital into a mix of existing holdings and a small number of new positions, including Egypt, Mongolia and Montenegro, where we see more attractive compensation for the risks that we are taking.

Investment-grade credit was another area of strong performance and, as such, we chose to reduce our allocation, redeploying capital to emerging market local currency bonds where, as with hard-currency debt, real yields and diversification benefits remain attractive if you can be selective.

During the quarter, we also introduced a new growth equity sleeve, sized at 5 per cent of the fund. This was funded equally from cash and a modest reduction to our equity income allocation. The objective here is not to chase recent winners, but to broaden the portfolio's opportunity set, retaining core exposure to durable, long-term compounders while also adding select businesses benefiting from opportunities being catalysed by AI.

Looking forward, we remain reasonably optimistic on the outlook. Supportive fiscal and monetary policy should underpin global growth. Continued investment in AI remains a tailwind and solid household balance sheets will help keep recession risk low.

The key point I would like to leave you with is this. The fund's income grew by more than 5 per cent in pounds and pence this year. In a world that continues to change quickly, the best way to keep income resilient is not to guess the market's reaction to the next headline, but to own a portfolio with multiple engines, to maintain discipline around valuation and risk, and to allow dependable cash flows to do the heavy lifting.

Thank you for your continued support.

Baillie Gifford Monthly Income Fund

Annual past performance to 31 December each year (%)

	2021	2022	2023	2024	2025
Baillie Gifford Monthly Income Fund B Inc	9.7	-9.6	8.9	2.5	7.5

Source: FE, Revolution. Net of fees, total return in sterling. Share class returns calculated using 10am prices, while the Index is calculated close-to-close.

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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

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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.

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