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Nektarios Chatzilefteris Michalas: After a turbulent second quarter, the investment-grade bond market was stable in Q3. We saw the Federal Reserve cut interest rates for the first time this year, trying to balance continued sticky inflation and a slowdown in the labour market. September also saw the strongest supply of new corporate bonds this year, and demand remained high. These dynamics, paired with good economic data and robust company fundamentals, saw credit spreads continue to grind tighter over the quarter.

I am, once again, happy to report that the strategy has continued to outperform its index. Overall bond selection is what drove relative outperformance, with favourite holdings such as CTP and International Workplace Group contributing strongly. Another strong contributor was a more idiosyncratic position, Mitchells & Butlers, the pub-owning company, which has been recovering strongly in the post-pandemic years.

In the context of current market conditions, we must balance caution and optimism. As I have noted, the market environment remains supportive for corporate bonds. However, credit spreads are tight and tail risks remain in higher-than-expected sticky inflation, rising geopolitical instability, and less sustainable than welcome fiscal situation of many developed countries.

So, what does this balance of caution and optimism look like in practice?

The portfolio is relatively defensively positioned compared to where we usually like to be. This translates into keeping plenty of dry powder to take advantage of opportunities should they arise, and reducing exposure to less robust credit.

However, the strategy is still risk-facing overall, reflecting the supportive overall backdrop.

This means the portfolio is positioned to outyield the index, primarily by:

First, expressing a significant overweight to BBB-rated investment grade bonds, and

And second, by continuing to favour an overweight in bonds at the front end of the yield curve. These corporate bonds, which mature relatively shortly, are expected to be less volatile in a selloff and yield enough to support adding value relative to the index.

Overall, investment-grade bond yields remain very attractive, with the asset class broadly seeing inflows. Our high-quality portfolio is providing a roughly 5 per cent yield, and we are also excited about the return potential on offer from individual bonds, looking to add further value for clients.

During the quarter, we found opportunities in the primary market, where companies issue new bonds to raise capital, and also in the secondary market to top up favoured holdings. In the primary, we took advantage of issuance with an attractive discount; for example, Tag Immobilien, a residential landlord in Germany in which we already invested. In the secondary, we saw opportunities in high-quality bank bonds, and we increased our holdings: for example, Danske Bank. The former is a core long-dated BBB-rated holding at an attractive yield, and the latter was part of a tactical move towards higher-quality, liquid holdings with an attractive enough value.

So, in summary, there are three key takeaways this quarter.

The strategy continued its positive trajectory of outperformance this year.

The portfolio is cautiously positioned but continues to outyield the index.

And finally, the portfolio is full of potential. I have mentioned a few company names, but the portfolio includes many more that hold the potential to add value through bond selection.

Thank you for your time, and if you do have any follow-up questions, please get in touch with your Baillie Gifford contact.

Investment Grade Bond

Annual past performance to 30 September each year (%)

	2021	2022	2023	2024	2025
Investment Grade Bond Composite (gross)	0.9	-22.3	7.1	11.4	4.5
Investment Grade Bond Composite (net)	0.6	-22.6	6.7	11.0	4.1
Investment Grade Bond Benchmark*	-0.3	-22.2	7.4	9.7	3.7

Annualised returns to 30 September 2025 (%)

	1 year	5 years	10 years
Investment Grade Bond Composite (gross)	4.5	-0.4	2.5
Investment Grade Bond Composite (net)	4.1	-0.8	2.2
ICE BofA Sterling Non-Gilt Index	3.7	-1.1	2.2

Source: Revolution, ICE. sterling. Returns have been calculated by reducing the gross return by the highest annual management fee for the composite. 1 year figures are not annualised.

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