

Baillie Gifford & Co Limited SC69524  
Directors' Report and Accounts  
Year ended 31 March 2013

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# Baillie Gifford & Co Limited

## Directors' Report and Accounts

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# Baillie Gifford & Co Limited

## Directors and Company Information

Directors:                      AW Paterson                      (Chairman)  
                                     JNC Budden  
                                     Lynn C Dewar  
                                     PJ Edwardson  
                                     CM Fraser  
                                     DS McGowan  
                                     AJ Telfer  
                                     GGD Walker  
                                     JH Wilson

Secretary:                      Catherine M Douglas

Independent Auditor:        KPMG Audit Plc  
                                     Saltire Court  
                                     20 Castle Terrace  
                                     Edinburgh  
                                     EH1 2EG

Bankers:                        The Royal Bank of Scotland plc  
                                     36 St Andrew Square  
                                     Edinburgh  
                                     EH2 2YB

Registered Office:            Calton Square  
                                     1 Greenside Row  
                                     Edinburgh  
                                     EH1 3AN

Company Number:            SC069524

# Baillie Gifford & Co Limited

## Directors' Report

The directors have pleasure in submitting their report and accounts for the year ended 31 March 2013.

### Business Review

The Company, which is a wholly owned subsidiary of Baillie Gifford & Co, carries on business as an Authorised Corporate Director of Open Ended Investment Companies (OEICs) and as a unit trust manager. It offers pooled investment vehicles to institutional and other investors and actively markets to institutional and intermediary investors. It aims to add value for clients over the long term and increase the value of funds under management.

The Company uses a number of indicators to monitor progress throughout the year:

- The performance of the Company's funds is one important consideration for potential investors. The Company's funds are compared to relevant stock market indices and to their peers. One indicator used is the percentage of funds in peer group performance quartiles over 3, 5 and 10 year periods, as measured by Financial Express (FE). The Board noted that long term performance had generally been good and will continue to keep performance under review.
- The Company's main source of income is from investment management fees which are based on the value of funds under management (FUM). The Company's FUM at 31 March 2013 was £9.61bn (2012: £6.14bn). The Board noted this increase which resulted from a combination of buoyant world markets, investment performance and a successful year for net sales.

The Company aims to offer a high level of service and administration to its clients and this is monitored by the Board on a regular basis through feedback from clients, and statistics covering breaches, complaints and other key performance indicators.

During the year the Company launched a further two sub-funds under the Baillie Gifford UK & Balanced Funds ICVC umbrella.

In October the Company reduced the minimum level of investment for the B class of shares from £250,000 to £10,000 in a number of sub-funds. At the same time an offer was made to A share class holders to convert their existing holding into the lower fee class B shares.

The Company is the holder of one subscriber share of €1 in each of Baillie Gifford Funds (Ireland) Plc and Baillie Gifford Worldwide Funds Plc. The Board do not consider either of these investments to be material to the Company's operations and the investments were made in support of Baillie Gifford's wish to offer further investment choices to institutional clients.

### Results and dividends

The profit for the year, after taxation, was £2,097,000 (2012: £1,606,000). The directors recommend that no final dividend be paid (2012: Nil) and that the profit be taken to reserves.

# Baillie Gifford & Co Limited

## Directors' Report (continued)

### Key Risks

Baillie Gifford & Co discloses information about its capital adequacy, risk management objectives and policies on its website at [www.bailliegifford.com](http://www.bailliegifford.com).

Risks to the business can be categorised into three broad categories – *strategic*, *business* and *operational*.

#### *Strategic risks*

The Company operates in two main types of market – **institutional**, largely by meeting the needs of clients of other Group members; and **intermediary**. The main strategic risks are external, and include a sustained fall in markets, or a change in the structure of the market leading to a need to change elements of the product range that is offered. The main risk limitation measure is to analyse market needs, to introduce new funds when there is sufficient anticipated demand, and to promote sales of a broad range of funds.

#### *Business risks*

The main business risk is suffering long-term poor fund performance, making these funds unattractive to the market place. The Board regularly reviews the performance of the funds to ensure that any deterioration in performance is highlighted and any necessary action considered.

#### *Operational risks*

A range of indicators covering the Company's operations is reviewed by senior management and the Board regularly throughout the year. A 'map' of operational risks which may arise is updated annually, or on an *ad hoc* basis should new circumstances, procedures or products require it. The operations of the Company, and of third party providers, are subject to periodic reviews by the Depositary of the funds/Trustee of the trusts (National Westminster Bank Plc); they are also reviewed by the Regulatory Risk, the Business Risk and the Internal Audit departments of the parent, Baillie Gifford & Co.

### Service Agreements

Baillie Gifford & Co provides the Company with investment management and marketing and administration services together with office facilities and other services including software, systems and related maintenance.

There is also an agreement with Baillie Gifford Overseas Ltd for marketing and investor liaison and an administration agreement to provide registration services to the Company's funds with Baillie Gifford Savings Management Ltd. Both of these companies are associated entities within the Baillie Gifford Group.

# Baillie Gifford & Co Limited

## Directors' Report (continued)

### Employees

It is the Company's policy to ensure equal opportunities for all its employees. The only criterion considered for the recruitment or promotion of staff is suitability for the position regardless of sex, marital status, religion, ethnic origin or disability (having due regard to the individual's aptitudes and abilities). It is the Company's policy, wherever possible, to continue the employment of staff who have become disabled (with appropriate re-training when required). No discrimination is made against disabled employees with regard to training, career development or promotion.

### Employee involvement, training and competence

As an Investor in People, Baillie Gifford is recognised as being committed to training and developing its entire staff. In order to gain and retain this recognition, the firm has to ensure that all employees are aware of the organisation's objectives. There are strong communication links within Baillie Gifford and regular updates on Baillie Gifford's performance, industry developments and the take-on or loss of clients are distributed to staff through the firm's intranet.

Baillie Gifford recognises that the performance of its staff is the major determining factor in its ability to differentiate itself in the market place and to sustain a long-term competitive advantage. Great emphasis is placed on training and development, and the partnership and remuneration structure has been the foundation of an excellent record in retaining senior personnel.

Individual training and development needs are identified formally on recruitment and as part of the ongoing competence based appraisal process, and monitored regularly. Baillie Gifford is committed to ensuring that the competence and seniority of all its staff is appropriate to the work they do and to the nature of their responsibilities, that competence is regularly reviewed, and that staff are appropriately supervised.

### Directors

The directors during the period were as follows:

AW Paterson\* (Chairman)  
JNC Budden  
Lynn C Dewar\*  
PJ Edwardson\*  
CM Fraser  
DS McGowan  
AJ Telfer \*  
GGD Walker  
JH Wilson

All shares of the Company were held throughout the year by Baillie Gifford & Co.

The directors marked \* were partners in Baillie Gifford & Co during the year.

# Baillie Gifford & Co Limited

## Directors' Report (continued)

### **Disclosure of information to auditor**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the board



**Catherine M Douglas**

18 June 2013  
Secretary  
Edinburgh

# Baillie Gifford & Co Limited

## Statement of Directors' Responsibilities in respect of the Directors' Report and the Financial Statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.



## Independent Auditor's Report to the members of

### Baillie Gifford & Co Limited

We have audited the financial statements of Baillie Gifford & Co Limited for the year ended 31 March 2013 set out on pages 11 to 18. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditor**

As explained more fully in the Statement of Directors' Responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matters prescribed by the Companies Act 2006**

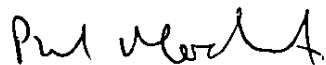
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



**Philip Merchant (Senior Statutory Auditor)**  
**for and on behalf of KPMG Audit Plc, Statutory Auditor**  
Chartered Accountants  
Edinburgh

18 June 2013

# Baillie Gifford & Co Limited

## Profit and Loss Account

for year ended 31 March 2013

	Notes	2013 £'000	2012 £'000
Operating income	2	13,835	11,444
Administrative expenses	3	<u>(11,083)</u>	<u>(9,268)</u>
Operating profit		2,752	2,176
Interest receivable		48	41
Overdraft interest payable		<u>-</u>	<u>(1)</u>
Profit on ordinary activities before tax		2,800	2,216
Tax on profit on ordinary activities	4	<u>(703)</u>	<u>(610)</u>
Profit on ordinary activities after tax		<u><u>2,097</u></u>	<u><u>1,606</u></u>

There are no recognised gains and losses other than the profit for the year and all operations are continuing. There is no material difference between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents.

The notes on pages 14 to 18 form part of these accounts.

# Baillie Gifford & Co Limited

Registered Number: SC069524

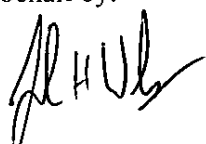
## Balance Sheet

at 31 March 2013

	Notes	2013 £'000	2012 £'000
<b>Current assets</b>			
Stock of shares/units	5	17	15
Debtors	6	174,428	27,824
Cash at bank		7,041	4,929
		<u>181,486</u>	<u>32,768</u>
<b>Creditors: amounts falling due within one year</b>	7	<u>173,713</u>	<u>27,092</u>
<b>Net current assets</b>		7,773	5,676
<b>Total assets less current liabilities</b>		<u>7,773</u>	<u>5,676</u>
<b>Capital and reserves</b>			
Called up share capital	8	50	50
Profit and loss account		7,723	5,626
<b>Equity shareholders' funds</b>	9	<u>7,773</u>	<u>5,676</u>

The notes on pages 14 to 18 form part of these accounts.

These financial statements were approved by the board of directors on 18 June 2013 and were signed on its behalf by:



**JH Wilson**  
Director

# Baillie Gifford & Co Limited

## Cash Flow Statement

for year ended 31 March 2013

	Notes	2013		2012	
		£'000	£'000	£'000	£'000
<b>Net cash inflow from operating activities</b>	10		2,838		2,062
<b>Return on investments and servicing of finance</b>					
Interest received		47		41	
Interest paid		-		(1)	
<b>Net cash inflow from returns on investments and servicing of finance</b>			47		40
<b>Taxation</b>					
Taxation paid		(773)		(515)	
<b>Net cash outflow from taxation</b>			(773)		(515)
<b>Net cash inflow before financing</b>			2,112		1,587
<b>Increase in cash</b>	11		2,112		1,587

The notes on pages 14 to 18 form part of these accounts.

# Baillie Gifford & Co Limited

## Notes to the accounts

for year ended 31 March 2013

### 1. Accounting policies

#### *Basis of Preparation*

The accounts are prepared under the historical cost convention and in accordance with applicable UK accounting standards. The directors continually review the operation of the business and have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and meet its liabilities as they fall due. Accordingly the accounts are prepared under the going concern basis.

#### *Investments*

Any stocks of shares/units held by the Authorised Corporate Director (ACD)/manager are valued at the lower of cost and net realisable value.

#### *Operating Income*

Operating income includes management fees received and receivable for the year, and distributions from shares/units held by the Company at the distribution date of the fund.

#### *Taxation*

The charge for taxation is based on the profit for the year and following FRS19, provision is made for deferred taxation on all timing differences. Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

### 2. Operating income

Operating income arises from the management of OEICs and unit trusts and the creation and maintenance of a market for the purchase or sale of shares and units.

	2013 £'000	2012 £'000
Management fees	13,469	11,090
Sale of shares/units	<u>4,630,381</u>	<u>2,983,644</u>
Gross revenue	4,643,850	2,994,734
Cost of shares/units	<u>4,630,015</u>	<u>2,983,290</u>
Operating income	<u>13,835</u>	<u>11,444</u>

74% (2012: 75%) of the share/unit transactions were on behalf of clients of Baillie Gifford & Co. Partners and employees of Baillie Gifford & Co have invested in the Company's OEICs and unit trusts and dealt at standard discount terms.

# Baillie Gifford & Co Limited

## Notes to the accounts (Continued)

for year ended 31 March 2013

### 3. Administrative expenses

	2013 £'000	2012 £'000
General administrative expenses	11,017	9,225
Amounts paid to auditor and its associates:		
- audit of these financial statements	7	7
- other services pursuant to legislation	11	33
- other services relating to taxation	48	3
	<u>11,083</u>	<u>9,268</u>

### Remuneration of Directors

	2013 £'000	2012 £'000
Emoluments as directors	110	119
Company contributions to money purchase pension schemes	15	16
	<u>125</u>	<u>135</u>

### Retirement Benefits accruing for the following number of directors under:

	2013	2012
Money purchase pension schemes	<u>2</u>	<u>2</u>
Defined benefit pension schemes	<u>1</u>	<u>1</u>

Baillie Gifford & Co are paid fees, and recharge expenses, for the provision of staffing and administration services. The Company's staff costs were £1,419,000 (2012: £1,278,000). The average number of persons employed by the Baillie Gifford Group (including directors of the Company) during the year was 725 (2012: 650).

Some pensionable employees of the Company are members of a funded defined benefit scheme (the Scheme) operated by its ultimate parent undertaking for the benefit of the BG Group. Consequently the Company is not able to identify a specific share of the underlying assets and liabilities of the Scheme.

The pension funding cost is assessed in accordance with advice of qualified actuaries using the Projected Unit Valuation method. As at 31 March 2010, the most recent actuarial valuation, there were assets of £92,400,000 and liabilities of £87,600,000 resulting in an overall surplus in the Scheme of £4,800,000.

The defined benefits scheme closed to future service accrual as at 1 April 2010, but retained the link to final salary, with the affected staff retaining their benefits within the scheme up to that date. A Group Personal Pension Plan, to which employees and the parent undertaking contribute, is available to pensionable employees.

# Baillie Gifford & Co Limited

## Notes to the accounts (Continued)

for year ended 31 March 2013

### 4. Tax on profit on ordinary activities

	2013 £'000	2012 £'000
Corporation tax at 24% (2012: 26%)	<u>703</u>	<u>610</u>
<b>Factors affecting the tax charge for the year</b>		
Profit on ordinary activities before tax	<u>2,800</u>	<u>2,216</u>
Profit at the standard rate of corporation tax at 24% (2012: 26%)	672	576
Expenses disallowed for corporation tax purposes	7	8
Charge arising from transfer pricing adjustment	<u>24</u>	<u>26</u>
	<u>703</u>	<u>610</u>

### 5. Stock of Shares/Units

	2013 £'000	2012 £'000
Shares/Units held in ACD's/manager's box	<u>17</u>	<u>15</u>

### 6. Debtors: Amounts receivable within one year

	2013 £'000	2012 £'000
Trade debtors: -		
Share/Unit sales	114,870	7,983
Accrued management fees	1,826	1,333
Due from Depositary/Trustee	2,910	5,868
Amounts due from associated company	54,692	12,550
Amounts due from holding undertaking	17	50
Other debtors	<u>113</u>	<u>40</u>
	<u>174,428</u>	<u>27,824</u>

### 7. Creditors: Amounts falling due within one year

	2013 £'000	2012 £'000
Trade creditors:-		
Share/Unit repurchases	5,258	6,981
Due to Depositary/Trustee	166,124	18,600
Amounts due to holding undertaking	1,076	540
Amounts due to associated companies	211	64
Other creditors	887	680
Taxation	<u>157</u>	<u>227</u>
	<u>173,713</u>	<u>27,092</u>



# Baillie Gifford & Co Limited

## Notes to the accounts (Continued)

for year ended 31 March 2013

### 8. Share capital

	Authorised		Allotted, called up and fully paid	
	2013 000's	2012 000's	2013 000's	2012 000's
Ordinary shares of £1 each	<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>

### 9. Reconciliation of movements in equity shareholders' funds

	Share Capital £'000	Profit & Loss Account £'000	Shareholders' Funds £'000
At 1 April 2012	50	5,626	5,676
Profit for year		<u>2,097</u>	<u>2,097</u>
At 31 March 2013	<u>50</u>	<u>7,723</u>	<u>7,773</u>

### 10. Reconciliation of operating profit to net cash inflow from operating activities

	2013 £'000	2012 £'000
Operating profit	2,752	2,176
(Increase)/Decrease in stocks of shares/units	(2)	77
(Increase)/Decrease in debtors	(146,603)	50,495
Increase/(Decrease) in creditors	<u>146,691</u>	<u>(50,686)</u>
Net cash inflow from operating activities	<u>2,838</u>	<u>2,062</u>

There were neither investing activities nor financings during the year.

### 11. Analysis of changes in net funds

	At 31 March 2012 £'000	Cash Flows £'000	At 31 March 2013 £'000
Cash at bank	<u>4,929</u>	<u>2,112</u>	<u>7,041</u>

# Baillie Gifford & Co Limited

## Notes to the accounts *(Continued)*

*for year ended 31 March 2013*

### 12. Related Party Transactions

The directors who are partners in Baillie Gifford & Co are shown on page 6. Throughout the year there subsisted a contract between the Company and Baillie Gifford & Co whereby the latter served the Company as investment managers and the investment management fees amounted to £5,934,000 (2012: £4,912,000). Baillie Gifford & Co also provided administration services and staff for which £2,301,000 (2012: £2,133,000) was paid by the Company.

A contract also exists between the Company and Baillie Gifford Overseas Limited whereby a marketing and liaison fee of £314,000 (2012: £218,000) was payable. This is in respect of the introduction and ongoing client servicing, provided by Baillie Gifford Overseas Limited, to overseas clients investing in the OEICs managed by the Company.

In the course of its normal market business, Baillie Gifford Life Limited, an associated entity, transacts in shares/units which are issued/redeemed by the Company. At the year end there were outstanding amounts as follows:-

	2013 £'000	2012 £'000
Contract Note Debtors	<u>54,692</u>	<u>12,550</u>
Contract Note Creditors	<u>150</u>	<u>1</u>

No payments were made to Baillie Gifford Savings Management Ltd as registration fees are paid directly by the funds.

### 13. Ultimate Holding Undertaking

The ultimate holding undertaking is Baillie Gifford & Co, a Scottish partnership of Calton Square, 1 Greenside Row, Edinburgh.