



TALKING WITH



Lesley Dunn

Head of Credit & co-manager of the Strategic Bond and Sustainable Income funds
Baillie Gifford

Talking fixed income and marathon training With Lesley Dunn, Head of Credit and co-manager of the Strategic Bond and Sustainable Income funds at Baillie Gifford, and Richard Romer-Lee, Chief Executive Officer at Square Mile.

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HOW DID YOU GET INTO THE INDUSTRY?

I had no idea what I wanted to do when I left school and headed off to university, where I studied maths, statistics and economics.



As I approached the end of my studies, I was no further down the line with any career ideas. A friend introduced me to a Japanese equity fund manager who was talking about his job - I was hooked.



I had finally found the connection between what I was studying and the real world. I applied for some jobs and was lucky enough to be taken on as a trainee fund manager at Murray Johnstone, where he worked.



IS FIXED INCOME A CORE PART OF BAILLIE GIFFORD'S BUSINESS?

All of our clients are equally important to us. They value our differentiated approach across asset classes, our focus on patient investing and deep fundamental research. Our goal is to deliver long-term investment performance and best-in-class client service no matter the asset class.



WHAT LED YOU TO BECOME A FIXED INCOME FUND MANAGER?

The maths side of things and the complexity of the subject. I was only at Murray Johnstone for a short time as they were taken over by Aberdeen. I was an equity analyst to begin with, but at SWIP I rotated to the bond team as part of my training and knew that was where I wanted to be. I was offered the opportunity to be a portfolio manager on Lloyds' annuity book at the ripe old age of 24.



HOW IMPORTANT IS INVESTING SUSTAINABLY TO YOU?

We see sustainability as having both a small "s" and a capital "S". Some funds have explicit sustainability targets, for example carbon targets - others don't.

But we must be very clear to clients what the objectives are. Sustainability impacts every company and to be sustainable you have to be meeting societal, economic and environmental needs and balancing them. It's a key part of company resilience.



As long-term investors, we want to find companies that are durable, so we focus on a combination of their competitive position, approach to sustainability and their capital structure. We are risk takers, but at Baillie Gifford there isn't a price for every risk.

WHAT'S THE EDGE AT BAILLIE GIFFORD?

It's the culture. The private ownership and the unlimited liability nature of it. The client is at the heart of everything we do and the focus is on doing the job honourably. If we can't, we shouldn't be doing it.

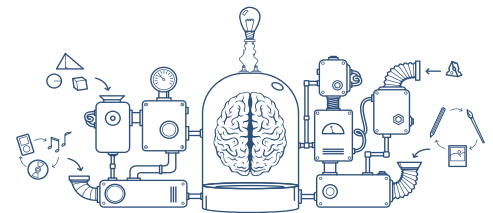
We are very focussed on the long term, which encourages people to behave in a different way.

Our investment horizon in fixed income is three years (that's decades in equities!), which I believe is longer than most, compared to the market in which we operate. It enables us to think about what could go right in companies as well as what could go wrong.



WHAT MAKES A GOOD FIXED INCOME MANAGER?

You need to be curious and interested in lots of different things. The difference between equity and credit is the latter needs a healthy dose of realism, as we are trying to protect downside risk. Our glass is only half full!



Square Mile

Talking With

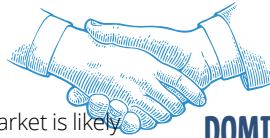


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WHAT ABOUT COMPANIES IN TRANSITION?

When it comes to ESG analysis, we are focused squarely on the future, rather than the past. The corporate bond market is likely to play an important role financing the transition, creating risks and opportunities for fixed income managers. From my perspective, companies that are adapting to a more sustainable economy can be attractive investments, provided they are resilient. Companies in transition are often the focus of our ESG engagement activity and this is an area where I think we can add value as active managers.



WHAT HAS YOUR EXPERIENCE BEEN LIKE AS A WOMAN IN A ROLE TYPICALLY DOMINATED BY MEN?

Coming from a family of boys, I have always lived in this environment. I was raised to see no difference and to believe I can do anything boys can do.

It saddens and disappoints me that there are not more female fund managers – it's a great industry and a fabulous job. Shared parental leave helps but there is so much more to be done. There is a cultural perception that holds people back from our industry. Society doesn't understand what we do and there's a perception that fund management is only about making money. I don't see it that way. It is a privilege and responsibility to look after peoples' savings and investments. The onus is on us to explain that, for example by going into schools and universities to explain our purpose and the benefits of what we do.



HOW SHOULD INVESTORS EMBRACE FIXED INCOME AS AN ASSET CLASS?

It's an exciting time for bond investors! We have proper yields, although it has been a painful time getting here. Inflation is settling, but at a higher rate than the people have been used to. If yields are close to peaking, nominal asset classes are attractive – mid single digit yields on investment grade bonds and high single digit yields, or even low double-digit yields, on high yield bonds. These are assets investors should consider if the economic situation remains tough as they will provide ballast in portfolios, especially if investors are seeking income. If the economic backdrop worsens and companies get into trouble, investors will need to make sure they get the benefit of experienced managers to steer their portfolios through the difficult times.

WHAT VALUABLE LESSONS HAVE YOU LEARNED?

Two things spring to mind. The first is when it's gone wrong, sell it! The amount of angst, emotional energy and time it takes can be such a negative drain on you and the rest of the portfolio. Your energy will be better spent elsewhere.



The second is to put things in perspective. In Covid, it was easy to be drawn into thinking the world had changed and it would be like this forever. It hadn't and the lesson was to ask what happens from here, not be caught in a negative spiral and unable to make decisions.

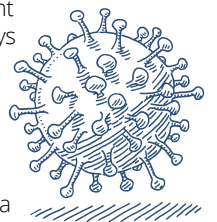
IS THERE TOO MUCH DEBT IN THE WORLD?

Certainly in the developed world, yes. It strikes me many people have steered away from emerging markets, yet they can provide diversification to the benefit of investors. For example, Indonesia offers investment grade government bonds, yielding 7% or more in local currency with a 40% debt to GDP ratio, which is half that of the developed markets. Corporates are in really good shape, with the pandemic having shaken out some weaker companies. While there is some short-term anxiety due to high inflation, it's in the context of starting from strong levels. How the market develops will depend on how persistent and high inflation remains. With regards to consumers, people have been surprised by the resilience of the US economy, which has been supported by high savings rates and not knowing when rate hikes will bite.



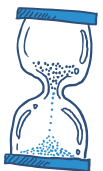
WHAT HAS BEEN THE MOST EXTRAORDINARY EVENT OF YOUR CAREER SO FAR?

Without doubt, the pandemic. I started my career towards the end of the TMT bubble, but I was too inexperienced to know what was going on. Clearly the global financial crisis was extraordinary, but again, it was still relatively early on. I initially thought the Covid crisis would last about three days – that's the optimist in me. Being a sociable person, I found it hard in the aftermath of a market crash working remotely and looking after two young children. However, I realise that I was very lucky, having a fabulous job, being part of a great team and having a wonderful family.



WHY SHOULD INVESTORS CONSIDER AN ACTIVE APPROACH TO BOND INVESTING?

When correlations within asset classes are high, it's difficult to add value in active portfolios. The benign environment investors became accustomed to during QE were never going to last forever. Active managers should show their worth when the macro-economic environment gets harder. In fixed income, it's vitally important to avoid capital losses to protect clients' money. Only active managers can do this. Volatility will persist – as will uncertainty about the levels of inflation and interest rates. Geopolitics have also come to the fore. Active managers can capture the upside in equities or minimise the downside in bonds.



HOW DO YOU RELAX?

I find it easy to compartmentalise my life. Having small children helps as they tell me what I should be doing! I love being around people, being outdoors and taking exercise, particularly running. In fact, I thrive on any exercise challenge – I have recently won a championship place in the London marathon, based on a qualifying run in a half marathon. It's my first marathon, so the pressure is on.



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