

# Japanese Equities

Philosophy and Process



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# Japanese Equities strategies

Details	Japan Growth	Japanese All Cap	Japanese Income Growth	Japanese Smaller Companies
<b>Style</b>	High growth	Broad growth	Total return	High growth
<b>Market cap*</b>	Mid-large cap (minimum > ¥200bn)	All cap (minimum > ¥100bn)	All cap (minimum > ¥75bn)	Small cap (¥50-150bn market cap at time of purchase)
<b>Investment Managers</b>	Donald Farquharson Tolibjon Tursunov	Matthew Brett	Matthew Brett Karen See	Praveen Kumar
<b>Strategy inception date</b>	31/12/2009	31/12/1989	31/07/2016	30/04/1983
<b>Vehicles available</b>	Segregated Irish UCITS	Segregated UK OEIC	Segregated UK OEIC	Segregated UK OEIC
<b>Investment guidelines</b>				
<b>Guideline number of stocks</b>	35-55	45-65	45-65	40-80

\*At time of investment.

# Philosophy

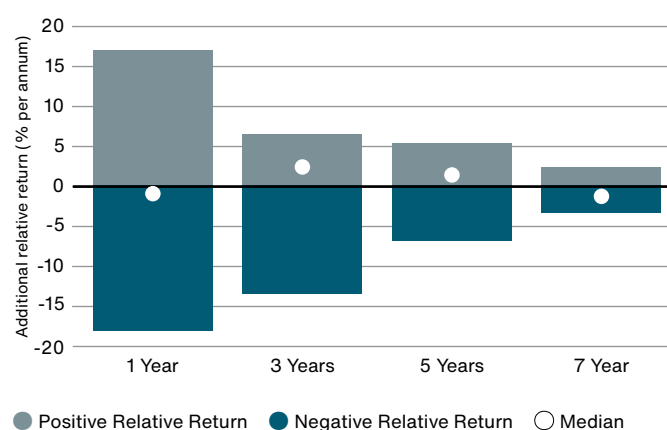
We aim to create value for our clients by finding and investing in Japan's most promising growth companies. We do so by employing a flexible approach to growth investing, and using time to our advantage.

## Time is our greatest asset

Adopting a long-term approach allows us to frame investment opportunities differently to the rest of the market. We consider the unique attractions of individual companies, and we do so over five-year time periods and beyond. This long-term focus enables us to ignore the shorter-term of markets, cycles and share prices – to unearth exploitable and under appreciated opportunities that will ultimately deliver long-term out performance.

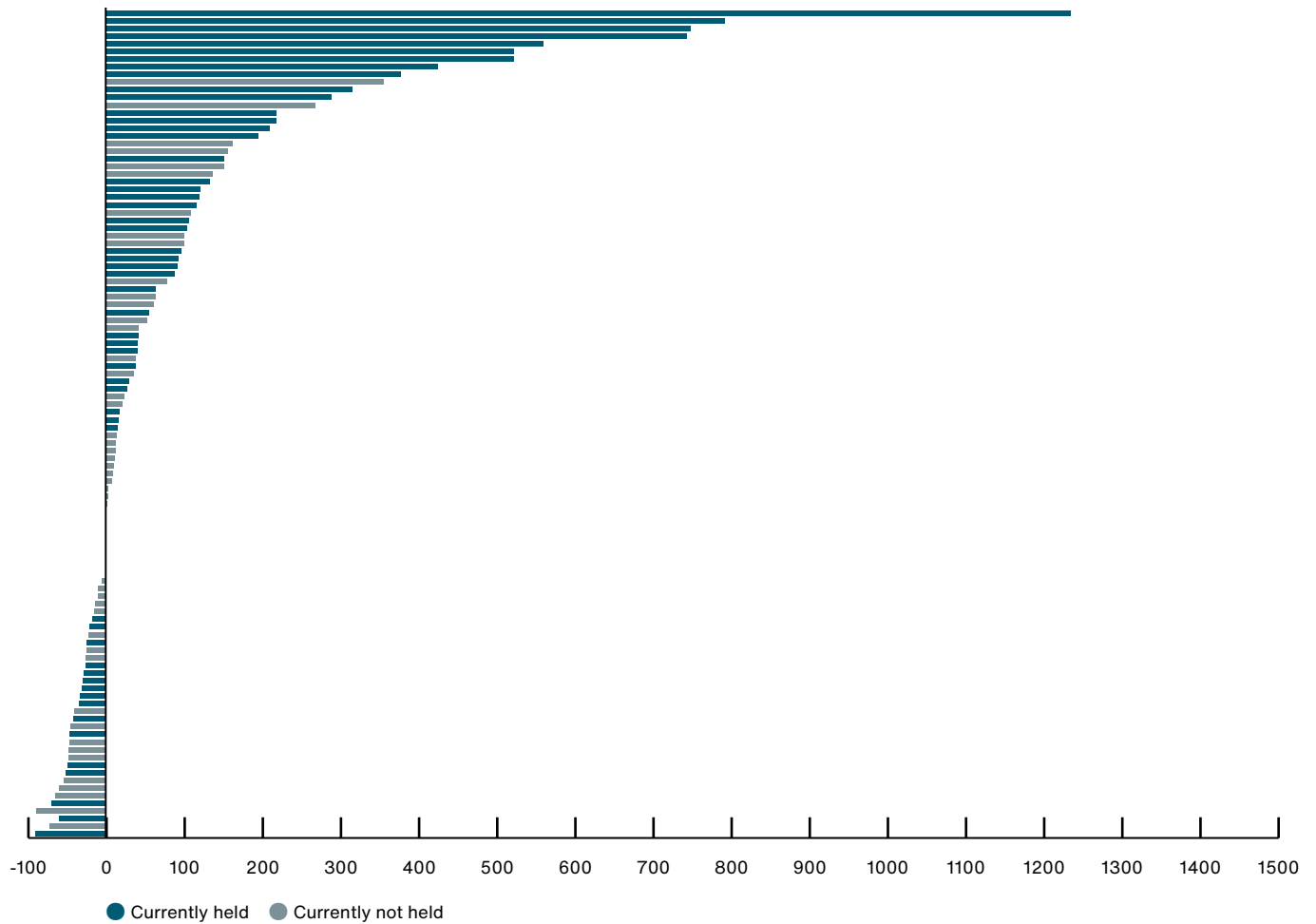
Long-term returns are determined by seeking out, investing and continuing to back a relatively small number of exceptional businesses which grow to multiples of their starting size. This approach will inevitably lead to some mistakes along the way, but by focusing on opportunities for major upside potential and supporting them for significant periods of time – by running our winners – we are able to capture the inherent asymmetry of equity market returns.

## Range of returns over rolling periods



Source: Revolution, Japan Exchange Group. As at 30 June 2024. Japanese Yen. Range of relative returns figures show rolling monthly returns over each period for the Japan Growth Composite (31/12/2009 to 30/06/2024) vs TOPIX.

### Absolute return of Japan Growth stocks – 10 years to 30 June 2024



Source: Revolution. Japanese Equities Growth Composite. Japanese Yen. As at 30 June 2024. Holding period returns based on Japan Growth Composite. Some stocks were only held for part of the period.

### Flexible approach to growth investing

Our experience has highlighted that growth can come in various guises, from companies of all shapes and sizes. As such our portfolios are invariably built, from the bottom-up, with a diversified mix of companies from across all sectors and industries.

The commonality is that each investment must present a plausible pathway to doubling over a five-year period.

But of course, there are various ways to climb a mountain. Be that through a gradual (compounding) approach, or via a more vertical (exponential) axis.

By focusing on businesses with attractive structural growth opportunities, with strong and sustainable competitive positions, high-quality earnings and aligned management we will optimise our exposure to Japan’s best of breed growth opportunities.

# Process

We see Japan differently to others.

## Idea generation

In pursuit of Japan's most attractive growth companies, we aim to generate original investment ideas by utilising a variety of sources. In addition to the more conventional inputs such as meetings with senior management and scrutinising company reports and accounts, we utilise private company analysis, bespoke and thematic reports from our independent researchers in Tokyo, investment trips (not limited to Japan), links with academia and industry experts.

## Research and debate

Companies that pique our interest are subject to our four-factor investment framework analysis, detailed to the right. This process is intended to focus attention on key fundamentals that we believe are most pertinent to delivering long-term growth in order to make peer-to-peer comparison, we use a standard analytical framework.

## 01 Opportunity

### How big is the opportunity over five-ten years?

First, we look at the favourableness of the environment in which the company operates.

Is this a blue ocean opportunity in terms of the addressable market? Are there favourable industry dynamics, such as weak incumbency? Is the industry or market undergoing structural change? What will be the effects of environmental and technological shifts in the long term and which companies are likely to benefit?

## 02 Resilience +

### How durable/adaptable will the competitive advantage be in five years' time?

We then explore whether the company has identifiable qualities that we believe will allow it to thrive in the complex environment in which it operates.

One way of thinking about resilience is as dynamic and durable competitive advantage. How replicable is their edge, and is it sustainable? Another view is from the customers' perspective. How much value is the company adding? If it did not exist how much would it be missed? We are less interested in their competitive moat right now than how deep it will be in five years' time and whether it will get deeper from there.

Another important aspect is the competence and alignment of management. Are leadership able to organically create new value organically? Is there a strong record of execution that gives us confidence in the future decisions? Can we see evidence of genuine ambition and vision? Are they aligned with wider stakeholders?

## 03 ESG

### **Taking in turn ESG factors, which do you believe are important and relevant to the investment case?**

We believe that ESG factors can have a material impact on a company's ability to generate long-term value. As such, we explicitly address these issues within the research framework.

Here we explore how the company intends to address ESG factors. The relevance of each is based upon the perceived materiality to the long-term sustainability of the company's business. As a result, key ESG considerations will vary depending on the industry sector, and core business activities of each company.

The Japanese Equities Team have a dedicated ESG analyst who works collaboratively with the investment managers to assess sustainability factors as part of the decision making process.

## 04 Upside

### **What is the likelihood of over two times upside?**

This dimension brings the investment case together, indicating to us whether a holding meets the high bar that we look for. We prefer to focus on the return we might realistically expect to make if we invest in the shares, aiming off conventional valuation metrics, which often tell us very little about the upside potential.

We assess the probability weighted average upside, considering both realistic base case scenarios as well as blue sky outcomes.

### **Decision**

To ensure enthusiastic participation in all discussions, the Japanese Equities Team is rewarded collectively on all of their assets under management, but in order to facilitate effective decision making, each model has a lead manager or managers. The investment managers meet formally twice a month to review existing portfolio holdings and when appropriate to make the case for new purchases.

The final decision will lie with the managers of the strategy, depending on individual conviction and broader portfolio context, whilst taking any relevant guidelines into account.

### **Sell discipline**

We believe that the application of an effective sell discipline allied to a willingness to run successful investments has made a key contribution to the generation of added value for our clients.

We continually monitor the same primary factors surrounding opportunity, resilience+, ESG and upside. If one or more fundamentally changes that will be a trigger to re-assess our holding. We do not normally sell a stock on valuation grounds alone.

Whenever significant news or information emerges for each stock in the portfolio we assess and discuss whether it is material to our forward-looking investment hypotheses and act accordingly by reducing or exiting the position.

We take a five-year view when investing in stocks. Consequently, turnover tends to be relatively low.



# Risk management

## Going beyond box ticking

We believe that permanent loss of capital is the most important risk to any portfolio, over and above model-based risk measures and historic share-price behaviour. We attempt to mitigate this risk in various ways:

### Fundamental analysis

Our first line of defence is extensive due diligence. New buy ideas - and current holdings - are subject to thorough reviews by the Japanese Equities Team, with input from a plurality of Baillie Gifford research teams.

### Portfolio risk

We seek to maintain an appropriate level of diversification at the overall portfolio level by embracing pragmatic risk guidelines which are formally reviewed on a regular basis.

## Liquidity risk

We maintain a rule that we will not hold more than 10% of the portfolio in stocks where we hold more than eight days' trading volume at time of purchase. This ensures that the portfolio remains sufficiently liquid to enable positions to be exited or client cash flows to be managed with minimal impact.

## Independent oversight

We have an independent Investment Risk, Analytics and Research Department at Baillie Gifford which provide value-added analysis on portfolios, that goes far beyond the concept of an investment risk function being only adversarial risk police. While part of their toolkit includes an ability to disagree and constructively oppose based on various oversight mechanisms and risk guidelines, they also play a role as engagers of investment managers: providing perspectives on the portfolios (on capital allocation, behavioural biases and decision making analysis for example) with the aim of improving the investment process, to achieve better outcomes and minimise opportunity costs.

# Competitive advantages

## Highly experienced team

We benefit from a highly experienced and well-resourced Japanese Equities Team. As a firm, we have been investing in Japan since the 1960's and running specialist Japanese equities mandates since 1981.

## Excellent long-term track record

Our flagship institutional Japanese Equities Strategy (Japan All Cap) benefits from an exceptional long-term track record since its inception in 1989.

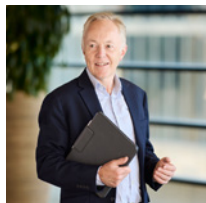
## Differentiated portfolios

We are active, growth investors. We believe that companies that provide a sustainable competitive advantage and generate sustainable long-term returns will outperform the market over the long term. Our proprietary approach to structuring our company meetings and written research helps to identify the factors which support long-term value creation.

## Unique investment approach

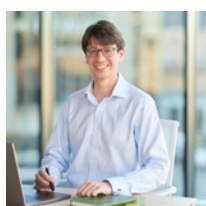
Our approach of having a genuinely long-term perspective, focusing on growth businesses and running highly differentiated portfolios has proven to be successful over the long term.

# People



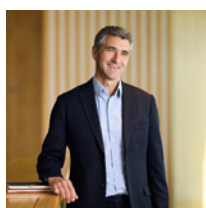
**Donald Farquharson\***

Donald is head of the Japanese Equities Team, which he joined in 2008. He is currently the co-manager for the Japan Growth Strategy, which he has run since its inception, and is also a member of the International Alpha Portfolio Construction Group. Donald joined Baillie Gifford in 2008 and became a partner of the firm in 2017. Donald has over 35 years of investment experience, almost all dedicated to Japan having worked in Tokyo, London and now Edinburgh. Prior to Baillie Gifford, Donald spent 20 years working for Schroders as a Japanese specialist and latterly Head of the Pan Pacific Equity Team. Between 1991 and 1995, he headed Schroders' research team in Tokyo. He graduated with MA (Hons) in Arabic Studies from the University of St Andrews in 1987 and is a CFA Charterholder.



**Matthew Brett\***

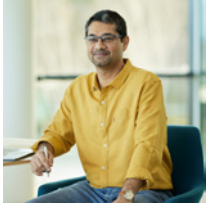
Matthew is an investment manager in the Japanese Equities Team. He is a manager of the Japanese Fund (and related All Cap Strategy segregated accounts), manager of the Baillie Gifford Japan Trust and co-manager of the Japanese Income Growth Fund. He joined Baillie Gifford in 2003 and became a partner in 2018. Matthew graduated BA (Hons) in Natural Sciences (Psychology) from the University of Cambridge in 2000 and holds a PhD in Psychology from the University of Bristol.



**Iain Campbell\***

Iain is an investment manager in the Japanese Equities Team. He is deputy manager of Developed Asia Pacific portfolios and is a member of the International All Cap Portfolio Construction Group. He became part of the International All Cap central desk in 2024. Iain has been a member of the Managed Team since 2014. He joined Baillie Gifford in 2004 and became a partner of the firm in 2020. Prior to joining Baillie Gifford, Iain worked for Goldman Sachs as an analyst in its investment banking division. He graduated BA in Modern History from the University of Oxford in 2000.

\*Partner




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**Praveen Kumar**


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Praveen is an investment manager in the Japanese Equities Team. He is manager of the Japanese Smaller Companies Strategy, the Shin Nippon Investment Trust, Developed Asia Pacific Strategy and deputy manager of the Baillie Gifford Japan Trust. He is also a founder and member of the International Smaller Companies Team. He joined Baillie Gifford in 2008 and previously worked for FKI Logistex. Praveen graduated BEng in Computer Science from Bangalore University in 2001, and completed an MBA from the University of Cambridge in 2008.




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**Tolibjon Tursunov**


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Tolibjon is a founding member of the Baillie Gifford Islamic Strategy and is a member of its Portfolio Construction Group. He is also a co-manager of the Japan Growth Strategy. He joined Baillie Gifford in 2011 and spent time working on our regional as well as large and small cap global equities teams. Prior to joining the firm, he worked in the corporate finance department of an FMCG company, before founding a price comparison website in Central Asia covering insurance, banking, and telecom sectors. Tolibjon graduated LLB in Law from Queen Mary University of London in 2008 and is a CFA Charterholder.




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**Karen See**


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Karen is an investment manager in the Japanese Equities Team. She is a co-manager of the Japanese Income Growth Strategy. She joined Baillie Gifford in 2012. Karen graduated BSc (Hons) in Economics with Japanese from University of Birmingham in 2011.




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**Jared Anderson**


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Jared is an investment manager in the Japanese Equities Team. He joined Baillie Gifford in 2016. Prior to joining the team, he worked in the Global Alpha, UK Equities and Fixed Income teams. Before he joined Baillie Gifford he spent two years as an Assistant Economist at the Scottish Government. Jared graduated MA (Hons) in Economics from the University of Edinburgh in 2012.




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**Mirbahram  
Azimbayli**

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Mirbahram is an investment manager in the Japanese Equities Team. He is a manager of the Developed Asia portfolios. He joined Baillie Gifford in 2018. Prior to joining the team, Mirbahram spent time working in the Global Alpha and Global Income Growth teams at Baillie Gifford. He graduated BSc in International Relations from the Middle East Technical University (METU) in 2016 and an MPhil in Russian and East European Studies from the University of Oxford in 2018.




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**Tia Chen**

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Tia is an investment analyst on the Japanese Equities Team. She joined Baillie Gifford in 2022 and has previously spent time with the Discovery Team. Tia graduated BA (Hons) in Land Economy from the University of Cambridge in 2021 and completed an MPhil in Real Estate Finance at the University of Cambridge in 2022.




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**Jack Torrance**

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Jack is an investment analyst in the Japanese Equities Team. He joined Baillie Gifford in 2019, initially in the Clients' Department as an investment specialist in the Health Innovation Team, before moving roles. Prior to this, he worked for an NGO in the Middle East, following a career as an Infantry Officer in the British Army for eight years, completing two combat tours in Afghanistan and Iraq, and other deployments in the Levant and Central Asia. Jack graduated BA in Middle Eastern Studies from the University of Exeter in 2011 and speaks fluent Arabic.




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**Eric Hertz**

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Eric is an ESG analyst working with the Japanese Equities Team and the International All Cap Team. He joined the firm in 2022 and first worked with the International Alpha Strategy after earning an MSc in International Business and Emerging Markets from the University of Edinburgh. Eric has previous experience working with impact communication, stakeholder integration, and sustainable value chains through his work with a Ugandan coffee start-up. Eric grew up in Kenya, Bangladesh, and Uganda.




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**Alison Henry**

Alison is an investment specialist in the Japanese Equities Team. She maintains a close relationship with the Japanese Investment Team, participating in stock discussions and portfolio meetings, as part of her investment specialist role. Alison joined Baillie Gifford in 2013 and prior to joining the team she spend time with the Positive Change Team. Alison began her career in New York before returning to Edinburgh in 2010 to join Investec. Alison graduated MA (Hons) in Business Management from the University of Edinburgh.




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**Thomas Patchett**

Thomas is an investment specialist in our Japanese Equities Team and a member of the Japan Product Group. Thomas maintains a close relationship with the Japanese Investment Team, participating in stock discussions and portfolio meetings, as part of his investment specialist role. Thomas joined Baillie Gifford in 2015. Prior to joining Baillie Gifford, Thomas worked as a Private Banker at Barclays Wealth & Investment Management. Thomas graduated BSc (Hons) in Business Management from Kings College London and is also a CFA Charterholder.




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**Sarah Clark**

Sarah is an investment specialist in our Japanese Equities Team. Sarah maintains a close relationship with the Japanese Investment Team, participating in stock discussions and portfolio meetings, as part of her investment specialist role. Prior to joining the team, Sarah spent four years with the Long Term Global Growth Team, responsible for existing clients. She joined Baillie Gifford in 2010. Sarah graduated BA (Hons) in Business Studies from Edinburgh Napier University in 2007.

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**The Japanese Equities Team also employs two Tokyo based researchers, Satoko Ishino and Akiko Hirai, who provide additional insight and input into the investment process.**

# Baillie Gifford

## Clients

We are immensely proud of our supportive client base. Without them, our business could not exist.

Our primary goal is to build long-term relationships with aligned, like minded, clients. Our longest client relationship dates back to the early 1900s.

A core principle we have always upheld is prioritising our clients' interests above the firm's. In an industry that often puts financial gain over client outcomes, this focus is crucial. We aspire to be seen as more than merely the 'hired help', and aim to be recognised as a trusted, long-term partner, who can be relied on to give honest and objective advice at all times.

We are research-driven, patient and prepared to stand apart from the crowd. And because we're an independent partnership without outside shareholders, the long-term goals of our clients are genuinely our priority.

## Partnership

Stability matters.

Since its inception in 1908, Baillie Gifford has proudly remained a private partnership. We have no intention of changing this. We have never had a merger or made an acquisition, nor do we seek to in the future. This is a rare level of stability in financial services.

All of our partners work within the firm which provides a unique level of alignment between them as owners, and our clients. This is a key differentiator in comparison to a lot of our peers.

## Focus

We have a clear unity of purpose – excellent long-term investment returns and unparalleled client service. Our interests and long-term objectives are completely aligned with those of our clients.

We are not short-term speculators, rather we deploy client's capital to run truly active portfolios that give exposure to exciting and lasting growth companies. We would argue that it is visionary entrepreneurs and company leaders that generate long-term profits and share price increases, not stock markets or indices.

When active management is done well it can add material value over the long term. We need to be willing to take a differentiated view. This is not easy. It requires dedication, independent thought and a long-term perspective. Our whole firm is built around this, and we will always remain resolutely investment and client outcome driven in our outlook.

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**Baillie Gifford™**

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

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