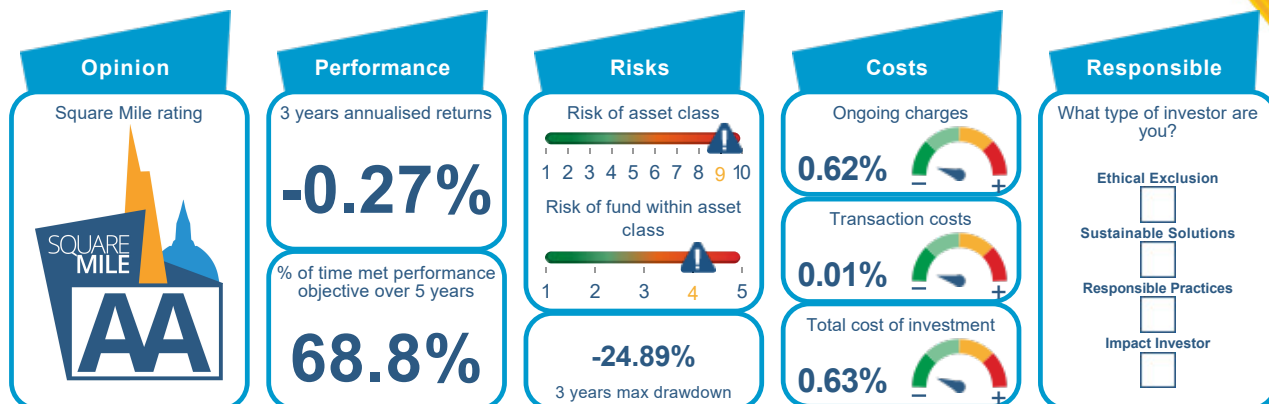


Baillie Gifford Japanese B Acc

November 2023



Source: Square Mile and Refinitiv, Data as at: 30th November 2023.

Overview

The fund is focused on delivering capital appreciation through a portfolio of Japanese equities. Over the long run, we believe this outcome is achievable, however, over short time periods, the fund is exposed to movements in the stock market and can experience sharp fluctuations in performance.

Square Mile's Expected Outcome

We believe that this fund should be able to outperform the TOPIX by 1.5% p.a. (after costs) on a rolling five-year basis.

Square Mile's Opinion

In our opinion, one of the most compelling features of this fund is the well-regarded and highly competent management team, which has built an impressive long-term track record of investing in Japanese equities. We would note here that, although Edinburgh may seem like a slightly odd place to be analysing Japanese companies from, it is an established financial centre, with a number of Japanese company management teams visiting the city. Moreover, members of the Baillie Gifford team make regular research trips to Japan to gain a true insight into how the companies that they invest in operate.

In terms of philosophy, the team focuses on identifying attractive growth companies of all sizes, whilst investments are conviction led, with decisions based on detailed analysis of company's individual merits and growth potential over the long term. The clear upside to such an approach is that the longer-term time horizon used by Baillie Gifford is different to that of many other Japanese equity investors, and so differentiates this fund from its peers, whilst the quality of the team members' skills, combined with their experience, provides them with a fine platform from which to identify attractively priced Japanese securities.

We would highlight that this style of management can lead to highly variable returns relative to the benchmark index and that the fund will likely underperform when this investment style is out of favour with the broader market. However, overall, we believe this fund to be a stand out proposition from its peers and one that should definitely be considered by investors considering a long-term allocation to Japanese equities.

Fund Manager's Formal Objective

The fund aims to outperform (after deduction of costs) the TOPIX, as stated in sterling, by at least 1.5% per annum over rolling five-year periods.

Outcome: Capital Accumulation	Domicile: UK
Active/Passive: Active	Benchmark: TOPIX
Asset Class: Equity	IA Sector: IA Japan
Yield: 1.54%	Fund size: £1,784 M
Fund Manager: Matthew Brett	Distribution Pay Date: June
Fund Price: 17.1 Pounds	Dividend Frequency: Annual
Currency of Share Class: GBP	Share Class Launch Date: 02/08/1999

Source: Square Mile and Refinitiv, Data as at: 30th November 2023

Asset Manager Overview

Baillie Gifford is a long established Edinburgh based investment partnership that is well known amongst institutional investors. As a house it is known for its growth investment style, generally lower trading within its portfolios, and focus on long-term investment theses. The Japanese team is made up of around 10 members, a number which is considered large enough to deal with the workload but small enough to ensure that decisions can be swiftly made. Alongside the core team there are also two additional researchers based in Tokyo and a dedicated ESG analyst. Portfolios run within the Japanese franchise follow a team based approach and all members share the same growth investment philosophy and process of identifying attractively priced Japanese securities.

Baillie Gifford believes that share prices follow earnings and that attractive opportunities can therefore be found in companies that offer above average sustainable growth in earnings and cash flows. The managers aim to populate the portfolio with a mix of different types of growth companies that can, broadly speaking, be placed into one of four categories. Firstly, they look for established, durable, stable and growing firms operating with business models that have low levels of competition. The team believes that such types of company tend to be undervalued by the market over the long term. Secondly, the portfolio also has positions in younger more rapidly growing businesses, where double-digit growth rates can be sustained over a number of years. Thirdly, attractive growth opportunities can also be found in more cyclical sectors where capital has been withdrawn or destroyed. This may have resulted in a reduction of the number of incumbents and therefore also diminished the level of competition. The final category focuses on companies in turnaround situations, these may be seemingly struggling businesses but which are experiencing structural or positive change.

In terms of the investment process, ideas are generated from a number of sources including the team's own research, company meetings and from interaction with other Baillie Gifford investment teams. The team monitors around 350 stocks on the 'followed list', these companies are deemed to have more than one of the following characteristics: positive industry background, durable competitive advantage, strong financial characteristics and a management whose attitude and interests are truly aligned with shareholders. The portfolio managers look to build a focused portfolio of between 45 and 65 stocks that are selected with little reference to the stock's importance in the index.

ESG Integration

Asset Manager ESG Integration

Baillie Gifford became a signatory to the UN Principles for Responsible Investment in 2007, currently having a firm-wide Investment & Stewardship Policy score of 4 out of 5. Baillie Gifford is also a signatory of the UK Stewardship Code and has joined several industry initiatives, including the Net Zero Asset Managers Initiative. At a business level they are committed to double carbon offsetting their own emissions through tree planting. They have also appointed an Environment Officer who is tasked with driving the businesses' own sustainability practices.

Baillie Gifford expect ESG to be of great importance to how they operate in the coming years, however they are not underestimating the increased complexity of the area from both a regulatory, and client preferences, perspective. They therefore look to integrate ESG in a thoughtful way as they believe it deepens company insights and can therefore improve investment returns. They also try to target the most relevant ESG factors at an individual company level.

Over recent years, Baillie Gifford has built a vast team of almost 50 individuals dedicated to ESG and sustainability. Over half of these are ESG Research and Engagement analysts who are embedded into the different investment teams and provide ESG input at a strategy level. The next biggest cohort are the ESG Services team who undertake pre-AGM analysis, execute voting and assist with ESG data. The remainder are split across a climate team who assess the inter-relationships between climate change and businesses, and a small client team. The majority of these recent hires are fairly early in their careers.

Baillie Gifford doesn't provide separated ESG scores for the companies they research, instead the focus is on qualitative in-house ESG research. They will not necessarily look to disinvest from companies in problematic industries, rather they will keep companies on watch and look for improvement over time.

In the coming years, the business is hoping to enhance their client reporting around ESG and sustainability, as well as increase the number of explicitly 'sustainable' funds within their product offering.

Fund ESG Integration

ESG is integrated into this fund's investment process, and accounts for one of the four-factor investment framework. Within this, respective analysts will assess the ESG credentials of individual stocks prior to investment. Alongside this, the Japanese investment team has an integrated governance and sustainability analyst, Cian Whelan, who helps provide input and challenge to the team at the stock level. Furthermore, the team will, and do, vote against management if actions are deemed not in the interests of shareholders. The team will also engage with their holdings over the course of investment in order to unlock their potential value with respect to ESG capabilities.

Ultimately, whilst ESG factors are embedded within the thought process of the Japanese team, it does not drive their final investment decision, but instead is a lens through which they view the potential risks and opportunities within any investment case.

Risk Summary

We would firstly highlight that this fund is invested in Japanese equities and exposed to the yen, both of which are generally quite volatile, as the Japanese market is sensitive to the macroeconomic environment. The managers of this fund have a long-term investment horizon and focus on quality, growing companies of all sizes, though we would note that there is typically a bias to smaller and medium size companies within the fund, which tend to be more volatile than their larger peers. Moreover, the final portfolio is constructed in a conviction manner, without reference to its benchmark index, the TOPIX, meaning that there are times when this fund can, and will, look and act differently to the TOPIX, especially over shorter timeframes. Therefore, the fund may be more suitable for investors with a longer time horizon and who are not seeking index like returns.

Additional Information

Annualised Return: -0.27%
Annualised Volatility: 16.52%
Max Drawdown: -24.89%
Max Gain: 10.16%
Max Loss: -11.05%
Sharpe Ratio: 0.00
Sortino Ratio: -0.13

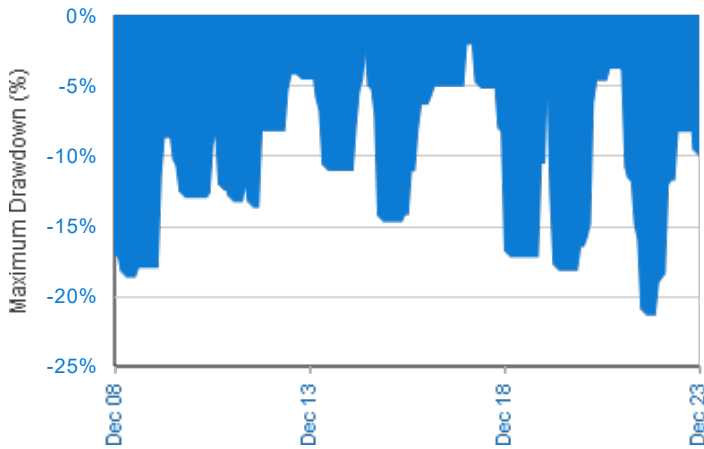
(3 years data to last month end unless otherwise stated)

Qualitative Risk Assessment

	Significant	Potentially Significant	Not Significant
Equity Risk			
Interest Rate Risk			
Credit Risk			
Exchange Rate Risk			
Liquidity Risk			
Emerging Markets Risk			
Derivative Risk			
Manager Risk			

For the full summary of the risks, [click here](#)

Maximum Drawdown (Rolling 12 Months)



Source: Square Mile and Refinitiv, Data as at: 10th January 2024

Calendar Year Performance To Quarter End

Period	Fund (%)	Sector (%)
2023	-13.8	-7.4
2022	1.1	2.8
2021	18.6	12.1
2020	18.5	16.5
2019	-12.6	-11.5

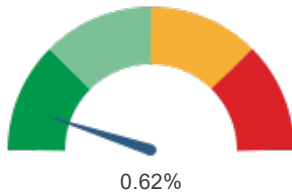
Source: Square Mile and Refinitiv, Data as at: 28th November 2023

Value for Money

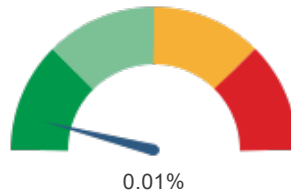
Both the fund's ongoing charge figure (OCF) and its transaction costs are significantly lower than the peer group median, resulting in a very competitive total cost of investment. Therefore, we think that the fund represents very good value for money because it offers investors access to a highly experienced and successful management team, with a well-regarded investment process and the ability to generate strong long-term outperformance of the TOPIX. Such factors are not easy to find or replicate.

In line with the MiFID II regulations, asset management firms are required to disclose all costs and charges related to the running and administration of funds. This can include items outside of the OCF, such as research costs. Baillie Gifford absorbs all of the costs associated with its research, which should slightly reduce the overall fee paid by investors.

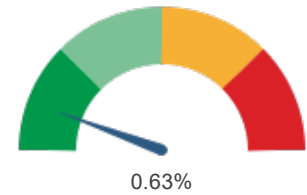
OCF v Peer Group



Transaction Costs v Peer Group



TCI v Peer Group



Source: Square Mile and Refinitiv, Data as at: 30th November 2023.

Rating Changes

Rating Changes over last 12 months	Time & Date rating changed
AA	12:43 / 28/06/2016

The Square Mile ratings are reviewed every 6 months. For full details on the methodologies, [click here](#).

For a full list of all Square Mile rated funds, [click here](#).

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