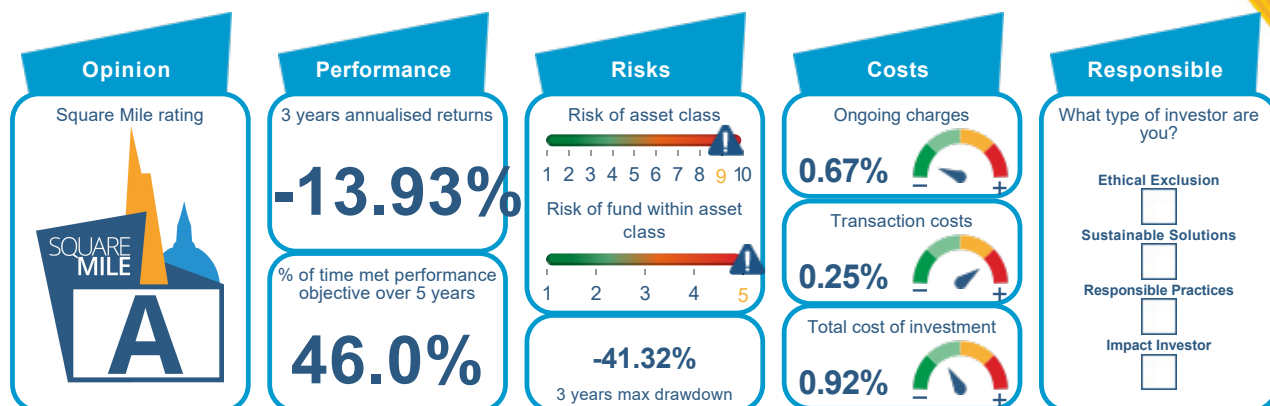


Baillie Gifford Japanese Smaller Companies B Acc

January 2025



Source: Square Mile and LSEG Lipper (all rights reserved), Data as at: 31st December 2024.

Overview

This fund is focused on long-term capital appreciation through an equity portfolio of smaller companies in Japan. Over the long run, we believe this outcome is achievable, but over short-time periods, the fund is exposed to movements in the stock market and can experience sharp fluctuations in performance.

Typically the share price performance of smaller companies is more racy than larger capitalisation stocks during up markets and more vulnerable to declines during weaker periods. This fund might be considered by investors with a longer-term investment horizon, who are willing to tolerate the volatility, which can come from investing in this area of the market.

Square Mile's Expected Outcome

We believe this fund should be able to outperform the MSCI Japan Small Cap index by 1.5% p.a. over rolling five-year periods.

Square Mile's Opinion

The smaller companies space in Japan has thousands of listed companies, from domestic facing businesses to firms with global footprints and brands. However, much of the listed universe is, in general, poorly covered and under researched by analysts, thereby presenting high conviction, active stock pickers, such as this fund's manager, plenty of scope to seek out hitherto undiscovered investment opportunities.

In our opinion, the manager of this fund and his colleagues that make up the well-resourced and well-regarded Japan team at Baillie Gifford are articulate, highly competent and experienced investors, who are actively supported in their work by the firm. Moreover, their investment process is robust, with all members of the team having a similar long-term investment philosophy and being clearly focused on undertaking detailed company research. In essence, we think that they are aptly suited to the task of identifying fast growing and quality businesses which are disrupting traditional business practices, in what is an extensive universe of companies.

Given the style of management applied, this fund can experience variable performance relative to the index and, in periods when investment styles, such as value, are in favour, the fund might struggle. Moreover, the smaller companies in which this fund invests tend to be more volatile than their larger peers, which may be accentuated by market moves on both the up and the downside. That being said, this fund has struggled to consistently meet its performance objective but we still believe that this fund has the ability to deliver outperformance of its benchmark over the longer term.

Fund Manager's Formal Objective

The fund aims to outperform (after deduction of costs) the MSCI Japan Small Cap Index, 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: MSCI Japan Small Cap
Asset Class: Equity	IA Sector: IA Japan
Yield: 0.82%	Fund size: £150M
Fund Manager: Praveen Kumar	Distribution Pay Date: June
Fund Price: 34.4 Pounds	Dividend Frequency: Annual
Currency of Share Class: GBP	Share Class Launch Date: 02/09/1999

Source: Square Mile and LSEG Lipper (all rights reserved), Data as at: 31st December 2024

Asset Manager Overview

Baillie Gifford is a long-established investment partnership that is well known amongst institutional investors. The firm is renowned for its growth investment style, with a focus on the long-term investment thesis that is reflected in the typically low trading activity within its portfolios. The firm's most experienced employees tend to progress to the partnership level, who ultimately own the firm. Indeed, the group is structured as an unlimited liability partnership, currently consisting of over 40 employee partners.

Fund Manager/Team Overview

This fund is managed by Praveen Kumar. He is part of a c.10 member Japanese team, 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 strong team based approach and all members share the same growth investment philosophy and process of identifying attractively priced Japanese securities.

Investment Philosophy & Process Overview

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 philosophy and process are very much focused on company research and identifying as yet undiscovered and small companies, with high growth rates and business models which could disrupt large industries and their stalwarts by using proprietary tech or internet-focused business models. That being said, the team seeks a number of key features when considering potential investment ideas, including a positive industry background, a durable competitive edge, strong financial characteristics and management team interests that are aligned with shareholders. Once the team is comfortable with the growth prospects of a company, the focus turns to its valuation, as often, growth companies come in various guises and are not simply those that are trading on a premium valuation. The team will buy a company where the share price has the potential to double over the next five years, seeking to identify companies with positively skewed asymmetric return profiles, with the aim of holding onto these businesses for the very long term.

The portfolio is constructed from the bottom up and, given the benchmark agnostic approach, is expected to be very different from its benchmark index, with its composition based on the merits of individual companies. The final portfolio will hold between 40 to 80 companies, with the manager defining small cap stocks as firms with market capitalisations of less than 150 billion yen at the time of purchase. The mandate permits the manager with freedom to invest where he sees fit, but there are some risk guidelines in place, mainly at a stock level. For example, the maximum single stock position is 10% of the portfolio, a 5% holding size will trigger a review and the maximum stock position at the time of initial purchase is 3%. The fund is also able to run its winners, therefore some exposure to large-cap companies are to be expected, however these will usually be trimmed as new opportunities arise.

ESG Integration

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 is exposed to the yen, both of which are generally quite volatile as the Japanese market and currency can, at times, be driven by factors utterly unrelated to company fundamentals. The managers of this fund have a long-term investment horizon and focus on investing in quality, growing companies at the lower end of the market capitalisation spectrum which are typically more volatile than their larger peers. Moreover, the final portfolio is constructed in a conviction manner, without reference to its benchmark index, meaning that there are times when this fund can, and will, look and act very differently to the index, 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, as the fund's performance can be highly variable.

Additional Information

Annualised Return: -13.93%

Annualised Volatility: 18.58%

Max Drawdown: -41.32%

Max Gain: 13.72%

Max Loss: -20.08%

Sharpe Ratio: -

Sortino Ratio: -0.71

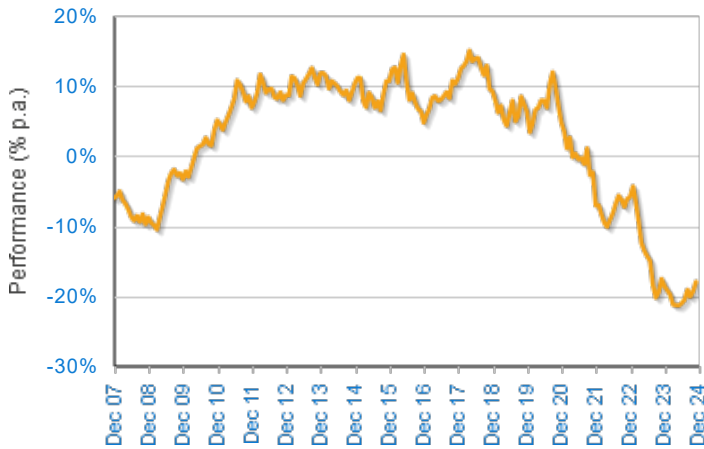
(3 years data to last month end unless otherwise stated)

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			

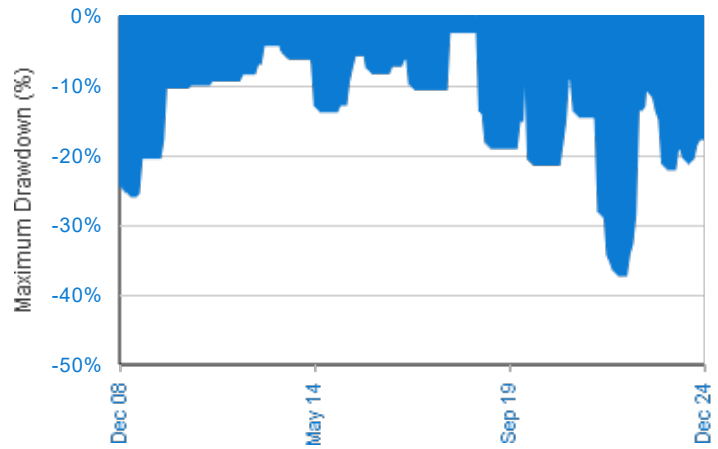
For the full summary of the risks, [click here](#)

3 Year Rolling Sector Outperformance



Source: Square Mile and LSEG Lipper (all rights reserved), Data as at: 21st January 2025. Share price total return.

Maximum Drawdown (Rolling 12 Months)



Source: Square Mile and LSEG Lipper (all rights reserved), Data as at: 20th January 2025

Calendar Year Performance To Quarter End

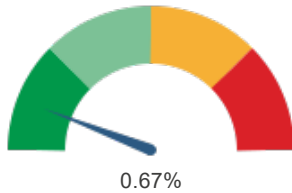
Period	Fund (%)	Sector (%)
2024	-9.9	10.4
2023	-11.3	12.6
2022	-20.3	-7.4
2021	-14.9	2.8
2020	30.0	12.1

Source: Square Mile and LSEG Lipper (all rights reserved), Data as at: 30th January 2025

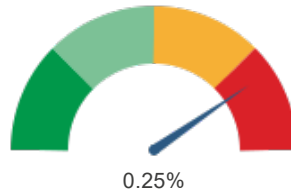
Value for Money

The ongoing charge figure (OCF) of this fund is markedly below that of its peer group median, whilst the transaction costs are significantly higher than the median. Although the latter increases the total cost of investment, this actively managed fund remains cheaper than its peer group. Thus, we believe the fund offers good value for money, as it gives access to a well-established franchise, managed by a highly capable team, with knowledge of a sizeable market with little analyst coverage.

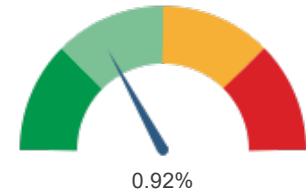
OCF v Peer Group



Transaction Costs v Peer Group



TCI v Peer Group



Source: Square Mile and LSEG Lipper (all rights reserved), Data as at: 31st December 2024.

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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