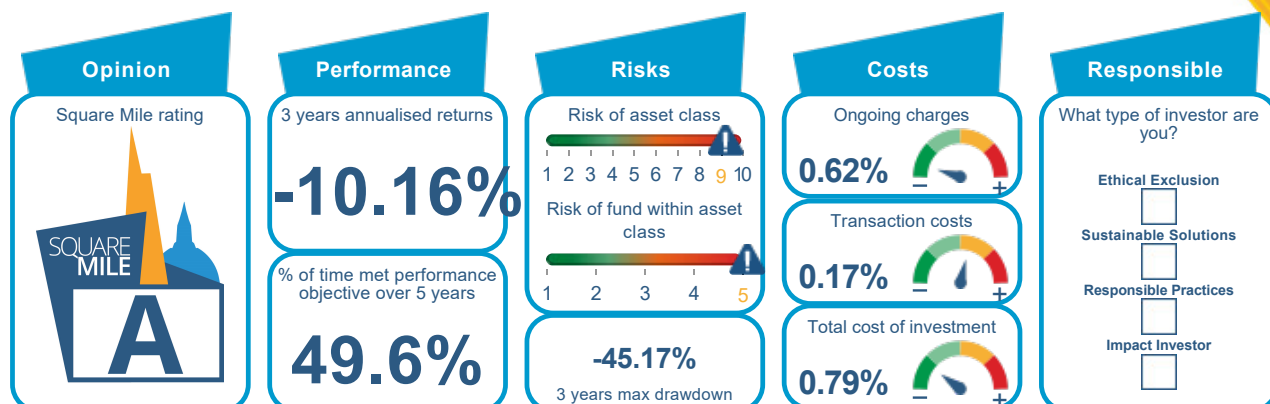


Baillie Gifford Japanese Smaller Companies B Acc

November 2023



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

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: 0.79%	Fund size: £239 M
Fund Manager: Paul Schwerda, Praveen Kumar	Distribution Pay Date: June
Fund Price: 36.2 Pounds	Dividend Frequency: Annual
Currency of Share Class: GBP	Share Class Launch Date: 02/09/1999

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

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 and Paul Schwerda. They are 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

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 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: -10.16%
Annualised Volatility: 20.16%
Max Drawdown: -45.17%
Max Gain: 13.72%
Max Loss: -29.87%
Sharpe Ratio: -0.02
Sortino Ratio: -0.59

(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			

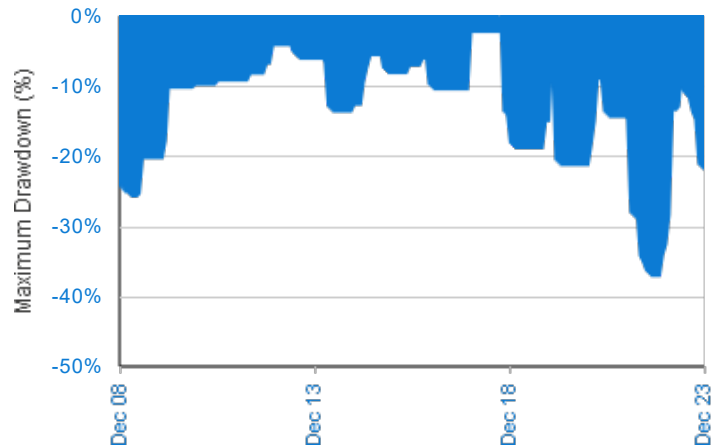
For the full summary of the risks, [click here](#)

3 Year Rolling Sector Outperformance



Source: Square Mile and Refinitiv, Data as at: 10th January 2024. Share price total return.

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	-20.3	-7.4
2022	-14.9	2.8
2021	30.0	12.1
2020	12.9	16.5
2019	-3.2	-11.5

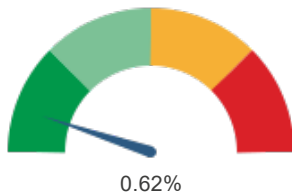
Source: Square Mile and Refinitiv, Data as at: 28th November 2023

Value for Money

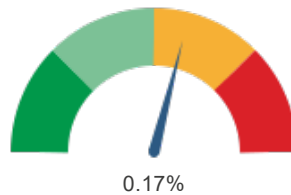
The ongoing charge figure (OCF) of this fund is markedly below that of its peer group median. The transaction costs, meanwhile, are above the peer group median, though not significantly. This has increased the total cost of investment, but this is an actively managed fund, whilst the fund is also cheaper than some of its peers. 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.

In line with the MiFID II regulations, asset management firms are required to disclose the costs and charges related to the running and administration of funds, which 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.

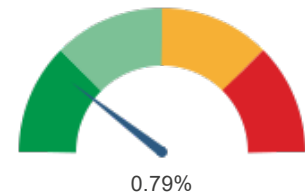
OCF v Peer Group



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
A	16:49 / 07/08/2018

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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