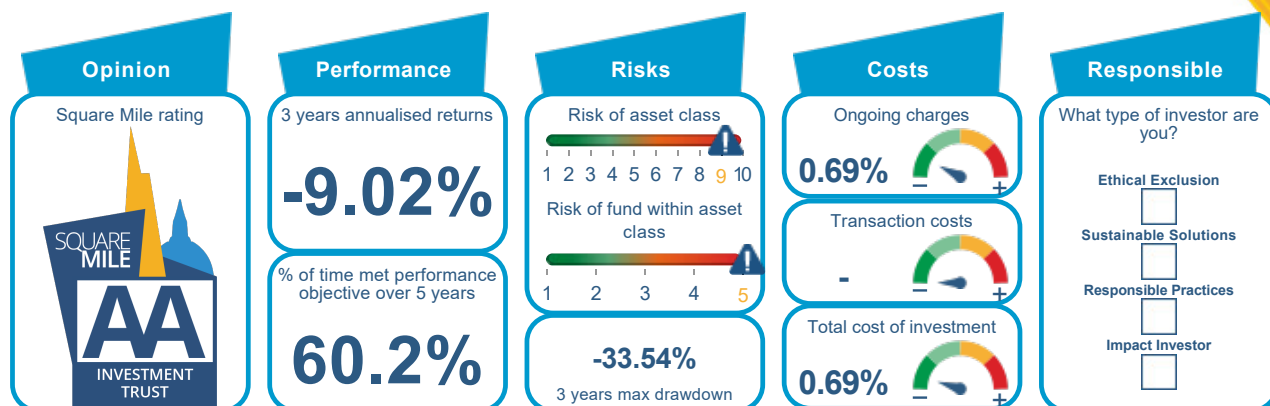


Baillie Gifford Japan Trust PLC

January 2025



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

Overview

The trust 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 trust is exposed to movements in the stock market and can experience sharp fluctuations in performance, particularly due to its use of gearing (or leverage) which will amplify its returns. This Square Mile rating is as at Tuesday 31st October 2023 at 09:00.

Square Mile's Expected Outcome

We believe that this trust 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 trust 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 trust 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 trust will likely underperform when this investment style is out of favour with the broader market. In comparison with its open-ended equivalent, the trust's usage of gearing can, at times, amplify its relative performance. In addition, the trust does have greater exposure to small-caps that are less liquid. However, overall, we believe this trust 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 Trust aims to pursue long-term capital growth principally through investment in medium to smaller sized Japanese companies which are believed to have above average prospects for growth.

Outcome: Capital Accumulation	Domicile: UK
Active/Passive: Active	Benchmark: TOPIX
Asset Class: Equity	IA Sector: Equity Japan
Yield: 1.40%	Fund size: £594M
Fund Manager: Matthew Brett, Praveen Kumar	Distribution Pay Date: December
Fund Price: 7.6 Pounds	Dividend Frequency: Annual
Currency of Share Class: GBP	Share Class Launch Date: 31/12/1981
NAV: 8.8 Pounds	Year end: 31/08/2024
Discount/Premium: -12.82%	Gearing: 0.00%
Permission to distribute from Capital: Yes	Fees charged: Income

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

Asset Manager Description

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.

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.

Board Overview

The board has four members, with an average tenure of just under five years, and fitting for this trust two of its members are Japanese speakers. There is a broad range of skills and experience across the board including investment management, accounting, and corporate finance. All of the board are independent which we feel is a crucial element and a key advantage of the investment trust structure, and all of the current board are owners of the trust, which gives us encouragement that the board is aligned with minority shareholders.

Fund Description

Fund Manager/Team Overview

This trust is managed by Matthew Brett and Praveen Kumar. They are supported by the Edinburgh based Japanese team, which 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.

Investment Philosophy & Process

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 40 and 70 stocks that are selected with little reference to the stock's importance in the index.

Fund ESG Integration

ESG is integrated into the 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.

Discount/Premium Policy

The board does not operate a formal discount control mechanism, but do commit, under normal market conditions, to minimise the discount to the prevailing net asset value. Over the 2022 financial year, the trust bought back 428,750 shares, at a cost of £3.3m. The trust, however, remains at a discount, trading at an average c.7% discount over the last year, which is slightly narrower compared to its closed end peers.

Debt Structure & Gearing Policy

The trust recognises the long-term advantages of gearing; therefore, it is structural, and has a maximum gearing level of 30%, with its level discussed by the board and managers at every board meeting. Over the past three years, gearing has ranged between 3% and 21%, with a five-year average of 11%. Borrowing facilities are made through a combination of revolving credit loans and fixed rate loans, with some borrowings made in yen to limit exchange rate exposure.

Dividend Cover & Reserves

The trust's aim is to achieve long-term capital growth, however it pays a dividend to maintain its investment trust status. For the financial year 2022, the board recommended a dividend of 9p per share (FY21: 6p), an increase of 50%. The dividend yield is 0.8%, with c.£16m in revenue reserves which equates to 2.8 years of dividend cover. The trust's revenue reserve can fluctuate as it may use the reserve to purchase its own shares.

Risk Summary

Invested in Japanese equities, the trust's underlying currency is the yen which therefore exposes investors to currency fluctuations. The managers of this trust 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 trust, 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 strategy can, and will, look and act differently to the TOPIX, especially over shorter timeframes. In addition, its return profile can also be amplified by its application of gearing. Therefore, this strategy may be more suitable for investors with a longer time horizon, who are not seeking index like returns, and are willing to accept a greater level of variability around said index.

Additional Information

Annualised Return: -9.02%

Annualised Volatility: 19.51%

Max Drawdown: -33.54%

Max Gain: 17.45%

Max Loss: -17.09%

Sharpe Ratio: -

Sortino Ratio: -0.47

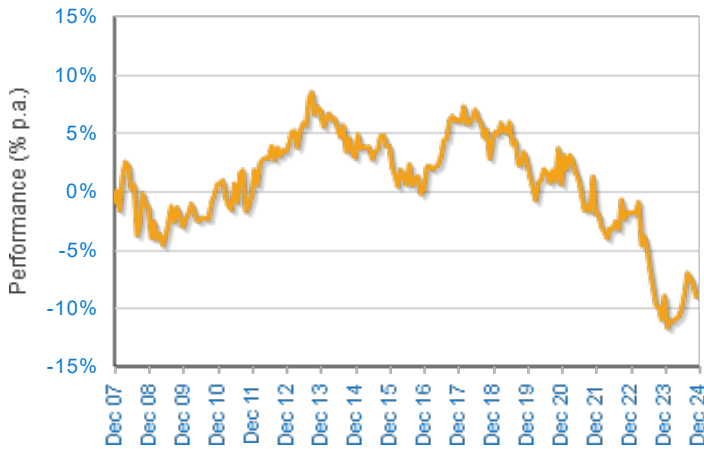
(3 years data to last month end unless otherwise stated)

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			
Gearing Risk			
Discount/Premium Risk			

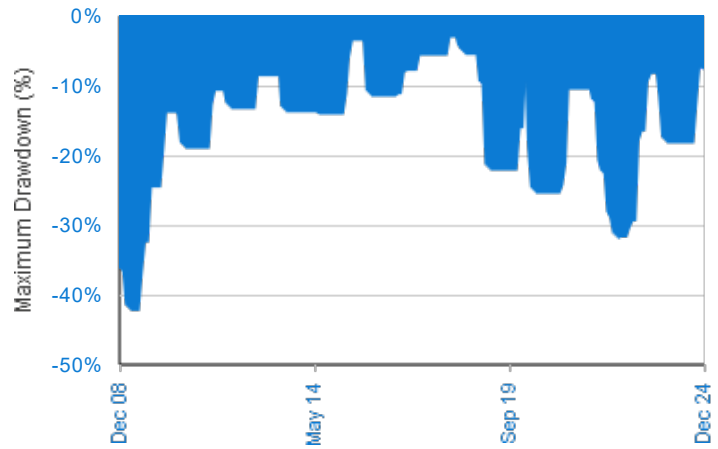
For the full summary of the risks, [click here](#)

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

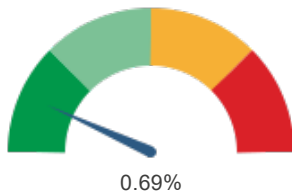
Period	Fund (%)	Sector (%)
2024	1.9	9.8
2023	-5.6	12.2
2022	-21.7	-5.8
2021	-10.4	1.6
2020	35.2	12.0

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

Value for Money

The annual management fee is 0.65% on the first £250 million and 0.55% on the remaining net assets, calculated and payable quarterly. We believe the use of tiered fees is a positive for investors as it passes on economies of scale as the trust gets bigger. The ongoing charge, as at 31st August 2023, was 0.67%, which was low when compared to its peer group. With the trust also having a very low trading cost (TC), its total cost of investment (TCI) was amongst the cheapest in its peer group, which we believe represents good value.

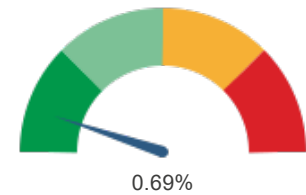
OCF v Peer Group



Transaction Costs v Peer Group



TCI v Peer Group



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

Square Mile Analysts

Ajay Vaid - Investment Research Analyst

Ibrahim Ishmail - Investment Research Associate

Rating Changes

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

There have been no ratings changes over the last 12 months.

All Rated Investment Trusts

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

Disclaimer

This document is issued by Square Mile Investment Consulting and Research Limited which is registered in England and Wales (08791142) and is a wholly owned subsidiary of Titan Wealth Holdings Limited (Registered Address: 101 Wigmore Street, London, W1U 1QU).

Unless otherwise agreed by Square Mile, this factsheet is only for internal use by the permitted recipients and shall not be published or be provided to any third parties. This factsheet is for the use of professional advisers and other regulated firms only and should not be relied upon by any other persons. It is published by, and remains the copyright of, Square Mile Investment Consulting and Research Ltd ("SM"). SM makes no warranties or representations regarding the accuracy or completeness of the information contained herein. This information represents the views and forecasts of SM at the date of issue but may be subject to change without reference or notification to you. SM does not offer investment advice or make recommendations regarding investments and nothing in this factsheet shall be deemed to constitute financial or investment advice in any way and shall not constitute a regulated activity for the purposes of the Financial Services and Markets Act 2000. This factsheet shall not constitute or be deemed to constitute an invitation or inducement to any person to engage in investment activity. Should you undertake any investment activity based on information contained herein, you do so entirely at your own risk and SM shall have no liability whatsoever for any loss, damage, costs or expenses incurred or suffered by you as a result. SM does not accept any responsibility for errors, inaccuracies, omissions, or any inconsistencies herein. Unless indicated, all figures are sourced by LSEG Lipper (all rights reserved). Past performance is not a guide to future returns.