

# BAILLIE GIFFORD SHIN NIPPON PLC

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Investing in new  
opportunities in Japan



Interim Financial Report  
31 July 2021





## Objective

Shin Nippon's objective is to pursue long term capital growth through investment principally in small Japanese companies which are believed to have above average prospects for growth.

## Comparative Index

The index against which performance is compared is the MSCI Japan Small Cap Index (total return and in sterling terms).

## Principal Risks and Uncertainties

The principal risks facing the Company are financial risk, investment strategy risk, discount risk, regulatory risk, custody and depositary risk, small company risk, operational risk, leverage risk and political risk. An explanation of these risks and how they are managed is set out on pages 8 and 9 of the Company's Annual Report and Financial Statements for the year to 31 January 2021 which is available on the Company's website: [shinnippon.co.uk](http://shinnippon.co.uk).

The principal risks and uncertainties have not changed since the date of that report.

## Responsibility Statement

We confirm that to the best of our knowledge:

- a) the condensed set of Financial Statements has been prepared in accordance with FRS 104 'Interim Financial Reporting';
- b) the Interim Management Report includes a fair review of the information required by Disclosure and Transparency Rule 4.2.7R (indication of important events during the first six months, their impact on the Financial Statements and a description of the principal risks and uncertainties for the remaining six months of the year); and
- c) the Interim Financial Report includes a fair review of the information required by Disclosure and Transparency Rule 4.2.8R (disclosure of related party transactions and changes therein).

On behalf of the Board  
MN Donaldson  
Chairman  
20 September 2021

## Summary of Unaudited Results

	31 July 2021	31 January 2021 (audited)	% change
Shareholders' funds	£716.0m	£698.1m	
Net asset value per ordinary share (after deducting borrowings at fair value)*	228.4p	231.5p	(1.3%)
Net asset value per ordinary share (after deducting borrowings at book value)*	228.6p	231.7p	(1.3%)
Share price	234.0p	244.0p	(4.1%)
Comparative index†			1.7%
Premium (borrowings at fair value)*	2.5%	5.4%	
Premium (borrowings at book value)*	2.4%	5.3%	
Active share*	95%	95%	

	Six months to 31 July 2021		Year to 31 January 2021	
Period's high and low	High	Low	High	Low
Net asset value per ordinary share (after deducting borrowings at fair value)*	242.9p	212.6p	251.4p	121.4p
Share price	252.0p	218.5p	270.0p	109.6p
Premium/(discount) (borrowings at fair value)*	5.0%	(1.4%)	13.3%	(17.0%)

### Longer Term Performance at 31 July 2021

	3 years	5 years	10 years
Net asset value per ordinary share#	20.7%	104.6%	512.3%
Share price	14.8%	98.5%	555.5%
Comparative index†	5.9%	38.7%	157.1%

Source: Refinitiv/Baillie Gifford and relevant underlying index providers. See disclaimer on page 18.

#### Notes

\* See Glossary of Terms and Alternative Performance Measures on page 16.

† The comparative index is the MSCI Japan Small Cap Index (total return and in sterling terms).

# After deducting borrowings at fair value. See Glossary of Terms and Alternative Performance Measures on page 16.

## Interim Management Report

In our most recent annual Manager's report, we noted the disruptive effects of the pandemic on the global economy. While the situation has moderated since then, thanks chiefly to ongoing vaccination programmes across most countries, a full-blown recovery feels some way off. Most developed economies have made meaningful progress with vaccination, but a number of emerging countries continue to face numerous challenges. Despite a painfully slow vaccine approval process, Japan has quickly caught up with most of its developed market peers in terms of vaccination rates. The high uptake of vaccines and falling hospitalisation rates in developed markets have encouraged governments to lift restrictions, resulting in a gradual return to normality for individuals and businesses. However, given the uneven nature of progress in vaccination across developed and emerging economies, investor sentiment has invariably remained one of caution.

Under these fluid and uncertain circumstances, the Japanese market remained subdued. For the six months to 31 July 2021, the MSCI Japan Small Cap index rose by 1.7% compared to a 1.3% fall in Shin Nippon's net asset value per share (after deducting borrowings at fair value). Over three and five years, which we believe is a fairer way of judging long-term investment performance, the comparative index has risen by 5.9% and 38.7% respectively, while the Company's net asset value per share has increased by 20.7% and 104.6%. We remain committed to our high-growth and long-term investment philosophy for Shin Nippon. The strong relative outperformance over longer periods of time illustrates the benefits of this approach. We continue to believe that for patient shareholders, Shin Nippon's style of high growth investing in Japanese smaller companies can be very rewarding in the long run.

High growth internet stocks were among the major beneficiaries of the pandemic last year. However, we have seen a reversal in investor sentiment over the past six months. Aggressive profit taking and a preference for cyclical companies has meant that numerous high growth small cap stocks have given up a lot of the share price gains made last year. Share price weakness notwithstanding, a number of the internet stocks held in Shin Nippon continue to deliver rapid growth despite a high base of comparison. Management teams at these companies remain committed to their long-term vision of dominating their chosen areas of operation

and are investing accordingly, quite often at the expense of short-term profitability. Although the Japanese market takes a dim view of such an approach, we believe this mindset gives the best chance for entrepreneurs in Japan to succeed in the long-term.

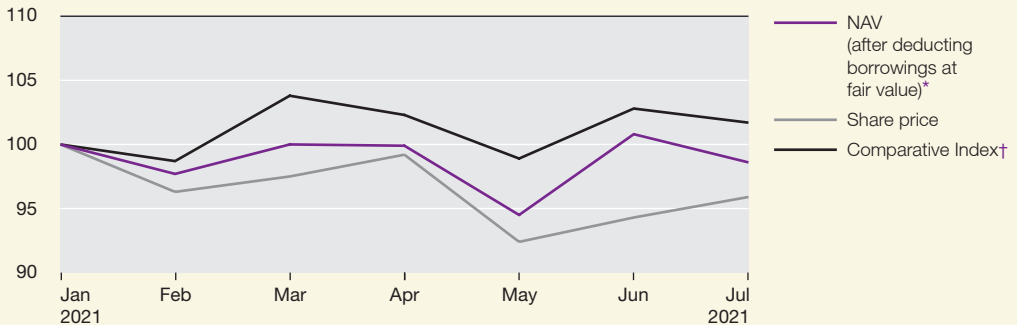
Given our investment philosophy of seeking out and investing in immature, capital light, and rapid growth smaller businesses run by entrepreneurs, we have a natural bias towards online companies. However, over the past decade or so, we have witnessed a positive change in attitudes towards risk taking in Japan. This has given rise to numerous entrepreneurial smaller businesses across various sectors, deepening the pool of investible companies for Shin Nippon. Consequently, we have a well-diversified portfolio of rapid growth stocks operating in different industries. The composition of the top performing stocks over the past six months is a good illustration of this feature. High-end camping gear manufacturer, Snow Peak, was among the top contributors to performance over the period. Snow Peak has a strong reputation within Japan's camping community and has a dedicated and growing user-base. Camping as a recreational activity is seeing strong growth in Japan as an increasing number of 'second' baby boomers (those born in the early 1970s) and young families embrace this form of recreation. In the US, where the company is expanding aggressively, roughly one in three households now undertake camping, representing a large market for Snow Peak. The company is run by the founding family who own nearly 30%, thereby ensuring strong alignment.

Semiconductor equipment manufacturer, JEOL, was another strong performer. It makes high-powered microscopes and other scientific analysis equipment. It has also established a new business supplying specialised semiconductor manufacturing equipment that allows companies to shorten the time needed to develop semiconductor chips. JEOL is investing heavily in new capacity to meet the strong demand for this new product. Having suffered a deceleration in sales and profit growth due to the pandemic, manufacturing related staffing company, Outsourcing, has seen a sharp recovery this year. Production across its manufacturing clients is recovering strongly, resulting in a rapid recovery of demand for Outsourcing's staffing services.

Past performance is not a guide to future performance.

## Six Months Performance

(figures plotted on a monthly basis and rebased to 100 at 31 January 2021)



\* See Glossary of Terms and Alternative Performance Measures on page 16.

† MSCI Japan Small Cap Index (total return and in sterling terms).

Source: Refinitiv/Baillie Gifford and relevant underlying index providers. See disclaimer on page 18.

Electronic components maker, Torex, also performed well. This is a niche manufacturer that specializes in designing low power devices. Having historically focused on consumer electronics, Torex is now finding applications for its products within autos and industrial electronics, and sales in both these areas are growing rapidly. More recently, the company has also been seeing strong demand for 5G and healthcare related applications. Another strong performer was WealthNavi, Japan's leading robo-advisory wealth management platform. It has built an easy-to-use online investing platform targeted at younger, middle-class families that currently have few options to invest for their future. A large part of these savings is currently in extremely low-yielding bank deposits and by offering a low-cost alternative, the company is seeking to gain a meaningful share of this sizeable pool of liquid assets. Since listing in December last year, WealthNavi's assets under management have continued to grow rapidly as its product offering gains traction within its target demographic.

As alluded to earlier, some of our longstanding internet businesses suffered a reversal in fortunes as their shares were sold off aggressively amidst a bout of profit taking. Japan's leading online food ordering and delivery platform, Demae-Can, continues to deliver rapid sales growth, but management are also investing heavily in expanding their delivery capabilities. This has resulted in large operating losses in the near term which the

market has not taken kindly to. Similarly, aggressive forward-looking investment by the management of online real estate company, GA Technologies, has been punished by the market, resulting in considerable share price weakness.

One of Japan's leading digital contracts providers, Bengo4.com, was also among the poor performers. Having done very well last year, the shares have come under selling pressure amidst rising concerns around intensifying competition. Longstanding holding M3, Japan's largest online drug marketing platform, was also weak due to worries about a slowdown in future growth, following a strong tailwind from the pandemic last year. We remain confident in the long-term growth prospects of each of these businesses and remain supportive of management's efforts in trying to scale up their respective companies in order to secure long-term growth.

Portfolio activity remained relatively muted. Turnover for the six months to 31 July 2021 was 5.7%, which is in line with our long-term investment horizon. Active share remains high at 95% as we continue to pay less attention to the benchmark and instead, focus on each company's individual fundamental attractions while making an investment decision. Despite the very low turnover, we did make a few changes to the portfolio. Kamakura Shinsho was the only new stock purchased during this period. This is Japan's largest and only

online portal offering a wide range of 'end-of-life' services. This is a large and traditional industry, with very little by way of IT usage. It is also quite an opaque, unregulated and poorly understood sector, resulting in the end consumer being charged exorbitant prices at a time of great vulnerability. Through its online model, Kamakura Shinsho is attempting to resolve these issues by offering customers a platform with complete price transparency and numerous options in terms of vendors. It is also gradually expanding the range of services it offers to include areas like inheritance and tax planning. We also sold two stocks during this period. Dream Incubator is a small consulting business that also has a venture capital arm. We had been shareholders in this company since 2013 but were disappointed with the lack of progress in terms of scaling the business and an absence of ambition and dynamism within the management team. Biotech company, Nanocarrier, was also sold from the portfolio as we lost conviction in management's ability to commercialise their proprietary drug-delivery platform following a series of failed trials.

Despite the disruption caused by the pandemic, we remain cautiously optimistic about a return to normality. Vaccination efforts across the globe are proceeding at a steady, albeit uneven, pace and in some countries, we are already seeing some normalisation in business conditions. The dislocation caused by the pandemic across global equity markets, Japan included, is giving rise to some exceptional investment opportunities for us. More encouragingly, the pandemic is also forcing through some very positive and much needed changes in business attitudes across Japan. Companies are being forced to adopt modern working practices, including the increased use of IT, and this is creating new growth opportunities for smaller companies in Japan. This combination of an expanding addressable market, a deepening pool of investible companies and attractive valuations gives us much cause for optimism and excitement at the prospect of unearthing and investing in such fast-growing smaller companies in Japan.

The principal risks and uncertainties facing the Company are set out on the inside front cover of this report.

Baillie Gifford & Co  
20 September 2021

## Twenty Largest Equity Holdings at 31 July 2021

Name	Business	Value £'000	% of total assets	Absolute performance* %
JEOL	Manufacturer of scientific equipment	26,396	3.4	56.8
Outsourcing	Employment placement services	26,217	3.4	49.3
Raksul	Internet based services	24,810	3.2	16.1
Snow Peak	Designs & manufactures outdoor lifestyle goods	20,241	2.6	114.6
WealthNavi	Digital robo wealth-management	19,648	2.5	59.0
Tsugami	Manufacturer of automated machine tools	18,819	2.4	(14.6)
GMO Payment Gateway	Online payment processing	18,106	2.3	(11.4)
Shoei	Manufactures motorcycle helmets	17,990	2.3	0.9
Litalico	Provides employment support and learning support services for people with disabilities	16,917	2.2	36.2
Kitanotatsujin	Online retailer	16,620	2.1	(10.7)
Katitas	Real estate services	16,046	2.1	(1.6)
Nihon M&A Center	M&A advisory services	15,858	2.0	(5.5)
Descente	Manufactures athletic clothing	15,661	2.0	65.5
Megachips	Electronic components	15,626	2.0	–
Bengo4.com	Online legal consultation	15,584	2.0	(33.5)
Torex Semiconductor	Semiconductor company	15,283	2.0	91.3
Horiba	Manufacturer of measuring instruments	14,942	1.9	3.6
Infomart	Internet platform for restaurant supplies	14,901	1.9	(5.4)
M3	Online medical services	14,747	1.9	(23.6)
MonotaRO	Online business supplies	14,396	1.9	(9.5)
		<b>358,808</b>	<b>46.1</b>	

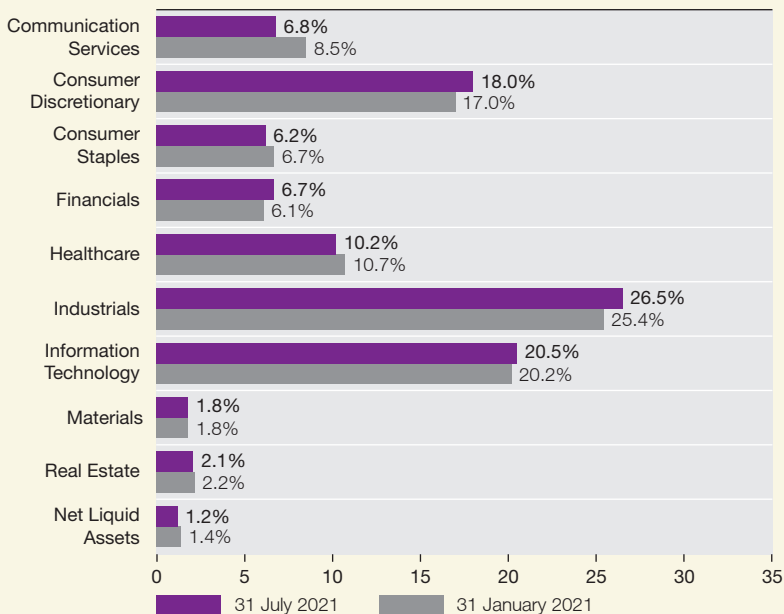
\* Absolute performance is in sterling terms and has been calculated on a total return basis over the period 1 February 2021 to 31 July 2021.

Source: Baillie Gifford/StatPro and relevant underlying data providers.

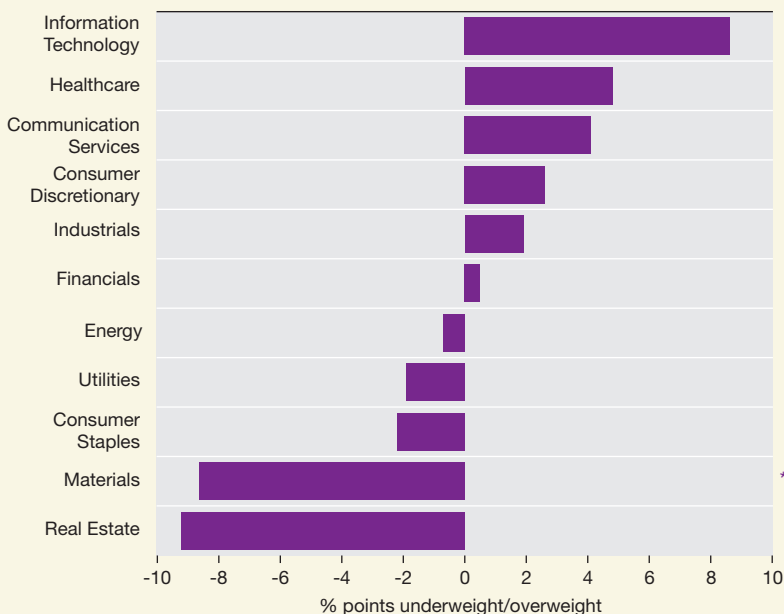
Past performance is not a guide to future performance.

# Distribution and Relative Weightings

## Distribution of Total Assets



## Portfolio Weightings relative to Comparative Index\* at 31 July 2021



\* MSCI Japan Small Cap Index (total return and in sterling terms). See disclaimer on page 18.



## Income Statement (unaudited)

	For the six months ended 31 July 2021			For the six months ended 31 July 2020		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net (losses)/gains on investments (note 3)	–	(14,428)	<b>(14,428)</b>	–	27,068	<b>27,068</b>
Currency gains/(losses)	–	3,442	<b>3,442</b>	–	(1,008)	<b>(1,008)</b>
Income from investments	3,342	–	<b>3,342</b>	2,655	–	<b>2,655</b>
Investment management fee (note 4)	(2,124)	–	<b>(2,124)</b>	(1,490)	–	<b>(1,490)</b>
Other administrative expenses	(306)	–	<b>(306)</b>	(261)	–	<b>(261)</b>
<b>Net return before finance costs and taxation</b>	<b>912</b>	<b>(10,986)</b>	<b>(10,074)</b>	<b>904</b>	<b>26,060</b>	<b>26,964</b>
Finance costs of borrowings	(456)	–	<b>(456)</b>	(572)	–	<b>(572)</b>
<b>Net return on ordinary activities before taxation</b>	<b>456</b>	<b>(10,986)</b>	<b>(10,530)</b>	<b>332</b>	<b>26,060</b>	<b>26,392</b>
Tax on ordinary activities (note 5)	(334)	–	<b>(334)</b>	(266)	–	<b>(266)</b>
<b>Net return on ordinary activities after taxation</b>	<b>122</b>	<b>(10,986)</b>	<b>(10,864)</b>	<b>66</b>	<b>26,060</b>	<b>26,126</b>
<b>Net return per ordinary share</b> (note 7)	<b>0.04p</b>	<b>(3.55p)</b>	<b>(3.51p)</b>	<b>0.02p</b>	<b>9.32p</b>	<b>9.34p</b>

The accompanying notes on pages 11 to 13 are an integral part of the Financial Statements.

The total column of this statement is the profit and loss account of the Company. The supplementary revenue and capital columns are prepared under guidance published by the Association of Investment Companies.

All revenue and capital items in this statement derive from continuing operations.

A Statement of Comprehensive Income is not required as all gains and losses of the Company have been reflected in the above statement.

## Balance Sheet (unaudited)

	At 31 July 2021 £'000	At 31 January 2021 (audited) £'000
<b>Fixed asset investments</b>		
Investments held at fair value through profit or loss (note 8)	766,182	750,943
<b>Current assets</b>		
Debtors	5,195	2,158
Cash and cash equivalents	5,519	10,438
	10,714	12,596
<b>Creditors</b>		
Amounts falling due within one year (note 9)	(1,331)	(2,288)
<b>Net current assets</b>	9,383	10,308
<b>Total assets less current liabilities</b>	775,565	761,251
<b>Creditors</b>		
Amounts falling due after more than one year (note 9)	(59,560)	(63,199)
<b>Total net assets</b>	<b>716,005</b>	<b>698,052</b>
<b>Capital and reserves</b>		
Share capital	6,265	6,026
Share premium account	257,727	229,149
Capital redemption reserve	21,521	21,521
Capital reserve	435,098	446,084
Revenue reserve	(4,606)	(4,728)
<b>Shareholders' funds</b>	<b>716,005</b>	<b>698,052</b>
<b>Net asset value per ordinary share</b> (after deducting borrowings at book value)	<b>228.6p</b>	<b>231.7p</b>
<b>Ordinary shares in issue</b> (note 11)	<b>313,252,485</b>	<b>301,292,485</b>

## Statement of Changes in Equity (unaudited)

### For the six months ended 31 July 2021

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve * £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 February 2021	6,026	229,149	21,521	446,084	(4,728)	<b>698,052</b>
Ordinary shares issued	239	28,578	–	–	–	<b>28,817</b>
Net return on ordinary activities after taxation	–	–	–	(10,986)	122	<b>(10,864)</b>
<b>Shareholders' funds at 31 July 2021</b>	<b>6,265</b>	<b>257,727</b>	<b>21,521</b>	<b>435,098</b>	<b>(4,606)</b>	<b>716,005</b>

### For the six months ended 31 July 2020

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve * £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 February 2020	5,591	174,208	21,521	286,983	(4,587)	<b>483,716</b>
Net return on ordinary activities after taxation	–	–	–	26,060	66	<b>26,126</b>
<b>Shareholders' funds at 31 July 2020</b>	<b>5,591</b>	<b>174,208</b>	<b>21,521</b>	<b>313,043</b>	<b>(4,521)</b>	<b>509,842</b>

\* The Capital reserve includes investment holding gains of £238,572,000 (31 July 2020 – gains of £155,794,000).

## Condensed Cash Flow Statement (unaudited)

	Six months to 31 July 2021 £'000	Six months to 31 July 2020 £'000
<b>Cash flows from operating activities</b>		
Net return on ordinary activities before taxation	(10,530)	26,392
Net losses/(gains) on investments	14,428	(27,068)
Currency (gains)/losses	(3,442)	1,008
Finance costs of borrowings	456	572
Overseas withholding tax	(356)	(344)
Changes in debtors and creditors	311	820
<b>Cash from operations</b>	867	1,380
Interest paid	(451)	(553)
<b>Net cash inflow from operating activities</b>	416	827
<b>Net cash (outflow)/inflow from investing activities</b>	(34,553)	6,961
Ordinary shares issued	29,431	–
<b>Net cash inflow from financing activities</b>	29,431	–
<b>(Decrease)/increase in cash and cash equivalents</b>	(4,706)	7,788
Exchange movements	(213)	533
Cash and cash equivalents at start of period	10,438	5,736
<b>Cash and cash equivalents at end of period*</b>	<b>5,519</b>	<b>14,057</b>

\* Cash and cash equivalents represent cash at bank and short term money market deposits repayable on demand.

## Notes to the Condensed Financial Statements (unaudited)

- 1 The condensed Financial Statements for the six months to 31 July 2021 comprise the statements set out on pages 7 to 10 together with the related notes on pages 11 to 13. They have been prepared in accordance with FRS 104 'Interim Financial Reporting' and the principles of the AIC's Statement of Recommended Practice issued in November 2014 and updated in April 2021 with consequential amendments and have not been audited or reviewed by the Auditor pursuant to the Auditing Practices Board Guidance on 'Review of Interim Financial Information'. The Financial Statements for the six months to 31 July 2021 have been prepared on the basis of the same accounting policies as set out in the Company's Annual Report and Financial Statements at 31 January 2021.

### Going Concern

The Directors have considered the nature of the Company's principal risks and uncertainties, as set out on the inside front cover, together with its current position, investment objective and policy, its assets and liabilities and projected income and expenditure. The Board has, in particular, considered the impact of heightened market volatility since the Covid-19 outbreak and reviewed the results of specific leverage and liquidity stress testing, but does not believe the Company's going concern status is affected. The Company's assets, which are primarily investments in quoted securities which are readily realisable (Level 1), exceed its liabilities significantly and could be sold to repay borrowings if required. All borrowings require the prior approval of the Board. Gearing levels and compliance with loan covenants are reviewed by the Board on a regular basis. The Company has continued to comply with the investment trust status requirements of section 1158 of the Corporation Tax Act 2010 and the Investment Trust (Approved Company) Regulations 2011. Accordingly, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing these Financial Statements and confirm that they are not aware of any material uncertainties which may affect the Company's ability to continue in operational existence for a period of at least twelve months from the date of approval of these Financial Statements.

- 2 The financial information contained within this Interim Financial Report does not constitute statutory accounts as defined in sections 434 to 436 of the Companies Act 2006. The financial information for the year ended 31 January 2021 has been extracted from the statutory accounts which have been filed with the Registrar of Companies. The Auditor's Report on these accounts was not qualified, did not include a reference to any matters to which the Auditor drew attention by way of emphasis without qualifying their report, and did not contain a statement under sections 498 (2) or (3) of the Companies Act 2006.

	Six months to 31 July 2021 £'000	Six months to 31 July 2020 £'000
<b>3 Net gains on investments</b>		
Gains on sales of investments	6,841	22,148
Movement in investment holding gains	(21,269)	4,920
	<b>(14,428)</b>	<b>27,068</b>

- 4 Baillie Gifford & Co Limited, a wholly owned subsidiary of Baillie Gifford & Co, has been appointed by the Company as its Alternative Investment Fund Manager (AIFM) and Company Secretary. The investment management function has been delegated to Baillie Gifford & Co. The management agreement can be terminated on six months' notice. The annual management fee is 0.75% on the first £50m of net assets, 0.65% on the next £200m of net assets and 0.55% on the remainder, calculated and payable quarterly.

## Notes to the Condensed Financial Statements (unaudited)

- 5 The Company suffers overseas withholding tax on its equity income, currently at the rate of 10%.
- 6 No interim dividend will be declared.

	Six months to 31 July 2021 £'000	Six months to 31 July 2020 £'000
<b>7 Net return per ordinary share</b>		
Revenue return	122	66
Capital return	(10,986)	26,060
Total Return	<b>(10,864)</b>	<b>26,126</b>

Net return per ordinary share is based on the above totals of revenue and capital and on 309,882,900 (31 July 2020 – 279,577,485) ordinary shares, being the weighted average number of ordinary shares in issue during the period. There are no dilutive or potentially dilutive shares in issue.

### 8 Fair Value

The fair value hierarchy used to analyse the basis on which the fair values of financial instruments held at fair value through the profit or loss account are measured is described below. Fair value measurements are categorised on the basis of the lowest level input that is significant to the fair value measurement.

Level 1 – using unadjusted quoted prices for identical instruments in an active market;

Level 2 – using inputs, other than quoted prices included within Level 1, that are directly or indirectly observable (based on market data); and

Level 3 – using inputs that are unobservable (for which market data is unavailable).

The Company's investments are financial assets held at fair value through profit or loss. An analysis of the Company's financial asset investments based on the fair value hierarchy described above is shown below.

As at 31 July 2021	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	756,135	–	–	<b>756,135</b>
Private company securities	–	–	10,047	<b>10,047</b>
Total financial asset investments	<b>756,135</b>	–	<b>10,047</b>	<b>766,182</b>

As at 31 January 2021	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	741,185	–	–	<b>741,185</b>
Private company securities	–	–	9,758	<b>9,758</b>
Total financial asset investments	<b>741,185</b>	–	<b>9,758</b>	<b>750,943</b>

## 8 Fair Value (continued)

There have been no transfers between levels of the fair value hierarchy during the period. The fair value of listed investments is last traded price which is equivalent to the bid price on Japanese markets. Listed investments are categorised as Level 1 if they are valued using unadjusted quoted prices for identical instruments in an active market and as Level 2 if they do not meet all these criteria but are, nonetheless, valued using market data. Private company investments are valued at fair value by the Directors following a detailed review and appropriate challenge of the valuations proposed by the Managers. The Managers' private company valuation policy applies methodologies consistent with the International Private Equity and Venture Capital Valuation guidelines 2018 ('IPEV'). The techniques applied are predominantly market-based approaches. The market-based approaches available under IPEV are set out below:

- Multiples;
- Industry Valuation Benchmarks; and
- Available Market Prices.

The Company's holdings in private company investments are categorised as Level 3 as unobservable data is a significant input to their fair value measurements.

- 9** There are no bank loans falling due within one year (31 January 2021 – nil). The amounts falling due after more than one year include bank loans of £59,560,000 (¥9.10 billion) outstanding under yen loan facilities repayable on 27 November 2023 and 18 December 2024 (31 January 2021 – £63,199,000 (¥9.10 billion)).
- 10** The fair value of the bank loans at 31 July 2021 was £60,207,000 (31 January 2021 – £63,740,000).
- 11** The Company has the authority to issue shares/sell treasury shares at a premium to net asset value as well as to buy back shares at a discount to net asset value. During the period under review, 11,960,000 shares were issued raising net proceeds of £28,817,000 (31 July 2020 – nil). No shares were bought back during the period under review (31 July 2020 – nil).
- 12** Transaction costs incurred on the purchase and sale of the investments are added to the purchase cost or deducted from the sale proceeds, as appropriate. During the period, transaction costs on purchases amounted to £23,000 (31 July 2020 – £26,000) and transaction costs on sales amounted to £9,000 (31 July 2020 – £34,000).

## 13 Related Party Transactions

There have been no transactions with related parties during the first six months of the current financial year that have materially affected the financial position or the performance of the Company during that period and there have been no changes in the related party transactions described in the last Annual Report and Financial Statements that could have had such an effect on the Company during that period.

None of the views expressed in this document should be construed as advice to buy or sell a particular investment.

## Further Shareholder Information

### How to Invest

Baillie Gifford Shin Nippon's shares are traded on the London Stock Exchange. They can be bought through a stockbroker or by asking a professional adviser to do so. If you are interested in investing directly in Shin Nippon you can do so online. There are a number of companies offering real time online dealing services – find out more by visiting [shinnippon.co.uk](http://shinnippon.co.uk).

### Client Relations Team Contact Details

You can contact the Baillie Gifford Client Relations Team by telephone (your call may be recorded for training or monitoring purposes), email or post. See contact details in the 'Further Information' box on the back cover.

### Share Register Enquiries

Computershare Investor Services PLC maintains the share register on behalf of the Company. In the event of queries regarding shares registered in your own name, please contact the Registrars on 0370 889 3223.

### Automated Exchange of Information

In order to fulfil its obligations under UK tax legislation relating to the automatic exchange of information, Baillie Gifford Shin Nippon PLC is required to collect and report certain information about certain shareholders.

The legislation requires investment trust companies to provide personal information to HMRC on certain investors who purchase shares in investment trusts. Accordingly, Baillie Gifford Shin Nippon PLC will have to provide information annually to the local tax authority on the tax residencies of a number of non-UK based certificated shareholders and corporate entities.

Shareholders, excluding those whose shares are held in CREST, who come on to the share register will be sent a certification form for the purposes of collecting this information.

For further information, please see HMRC's Quick Guide: Automatic Exchange of Information – information for account holders [gov.uk/government/publications/exchange-of-information-account-holders](http://gov.uk/government/publications/exchange-of-information-account-holders).

### Risk Warnings

Past performance is not a guide to future performance.

Baillie Gifford Shin Nippon is a listed UK company. The value of its shares and any income from those shares can fall as well as rise and investors may not get back the amount invested.

Baillie Gifford Shin Nippon invests in overseas securities. Changes in the rates of exchange may also cause the value of your investment (and any income it may pay) to go down or up.

The Company's risk could be increased by its investment in private companies. These assets may be more difficult to buy or sell, so changes in their prices may be greater.

Baillie Gifford Shin Nippon can borrow money to make further investments (sometimes known as 'gearing' or 'leverage'). The risk is that when this money is repaid by the Company, the value of the investments may not be enough to cover the borrowing and interest costs and the Company will make a loss. If the Company's investments fall in value, any invested borrowings will increase the amount of this loss.

Market values for securities which have become difficult to trade may not be readily available, and there can be no assurance that any value assigned to such securities will accurately reflect the price the Company might receive upon their sale.

Baillie Gifford Shin Nippon can make use of derivatives which may impact on its performance. Currently the Company does not make use of derivatives.

Baillie Gifford Shin Nippon invests in smaller companies which are generally considered higher risk as changes in their share prices may be greater and the shares may be harder to sell. Smaller companies may do less well in periods of unfavourable economic conditions.

Baillie Gifford Shin Nippon invests in Japan and exposure to a single market and currency may increase risk.



Baillie Gifford Shin Nippon can buy back its own shares. The risks from borrowing, referred to above, are increased when the Company buys back its shares.

As the aim of Baillie Gifford Shin Nippon is to achieve capital growth, it is unlikely that the Company will provide a steady, or indeed any, income.

The Company is listed on the London Stock Exchange and is not authorised or regulated by the Financial Conduct Authority.

The staff of Baillie Gifford and Baillie Gifford Shin Nippon's Directors may hold shares in Baillie Gifford Shin Nippon and may buy or sell such shares from time to time.

Further details of the risks associated with investing in the Company, including how charges are applied, can be found at **[shinnippon.co.uk](http://shinnippon.co.uk)**, or by calling Baillie Gifford on 0800 917 2112.

The information and opinions expressed within this Interim Financial Report are subject to change without notice. This information has been issued and approved by Baillie Gifford & Co Limited, the Managers and Secretaries, and does not in any way constitute investment advice.

## Glossary of Terms and Alternative Performance Measures (APM)

An alternative performance measure is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. The APMs noted below are commonly used measures within the investment trust industry and serve to improve comparability between investment trusts.

### Total Assets

Total assets less current liabilities, before deduction of all borrowings.

### Net Asset Value

Also described as shareholders' funds, Net Asset Value (NAV) is the value of total assets less liabilities (including borrowings). The NAV per share is calculated by dividing this amount by the number of ordinary shares in issue.

### Net Asset Value (Borrowings at Book Value)

Borrowings are valued at adjusted net issue proceeds. The Company's yen denominated loans are valued at their sterling equivalent and adjusted for their arrangement fees. The value of the borrowings on this basis is set out in note 9 on page 13.

### Net Asset Value (Borrowings at Fair Value) (APM)

This is a widely reported measure across the investment trust industry. Borrowings are valued at an estimate of their market worth. The Company's yen denominated loans are fair valued using methodologies consistent with International Private Equity and Venture Capital Valuation ('IPEV') guidelines. The value of the borrowings on this basis is set out in note 10 on page 13.

	31 July 2021	31 January 2021
Net Asset Value per ordinary share (borrowings at book value)	228.6p	231.7p
Shareholders' funds (borrowings at book value)	£716,005,000	£698,052,000
Add: book value of borrowings	£59,560,000	£63,199,000
Less: fair value of borrowings	(£60,207,000)	(£63,740,000)
<b>Shareholders' funds (borrowings at fair value)</b>	<b>£715,358,000</b>	<b>£697,511,000</b>
Shares in issue at period end	313,252,485	301,292,485
<b>Net Asset Value per ordinary share (borrowings at fair value)</b>	<b>228.4p</b>	<b>231.5p</b>

### Net Liquid Assets

Net liquid assets comprise current assets less current liabilities, excluding borrowings.

### Discount/Premium (APM)

As stockmarkets and share prices vary, an investment trust's share price is rarely the same as its NAV. When the share price is lower than the NAV per share it is said to be trading at a discount. The size of the discount is calculated by subtracting the share price from the NAV per share and is usually expressed as a percentage of the NAV per share. If the share price is higher than the NAV per share, this situation is called a premium.

	31 July 2021 NAV (book)	31 July 2021 NAV (fair)	31 January 2021 NAV (book)	31 January 2021 NAV (fair)
Closing NAV per share	228.6p	228.4p	231.7p	231.5p
Closing share price	234.0p	234.0p	244.0p	244.0p
<b>Premium</b>	<b>2.4%</b>	<b>2.5%</b>	<b>5.3%</b>	<b>5.4%</b>

## **Total Return (APM)**

The total return is the return to shareholders after reinvesting the net dividend on the date that the share price goes ex-dividend. The Company does not pay a dividend, therefore, the one year total returns for the share price and NAV per share at book and fair value are the same as the percentage movements in the share price and NAV per share at book and fair value as detailed on page 1.

## **Ongoing Charges (APM)**

The total expenses (excluding borrowing costs) incurred by the Company as a percentage of the average net asset value (with debt at fair value). The ongoing charges have been calculated on the basis prescribed by the Association of Investment Companies.

## **Gearing (APM)**

At its simplest, gearing is borrowing. Just like any other public company, an investment trust can borrow money to invest in additional investments for its portfolio. The effect of the borrowing on the shareholders' assets is called 'gearing'. If the Company's assets grow, the shareholders' assets grow proportionately more because the debt remains the same. But if the value of the Company's assets falls, the situation is reversed. Gearing can therefore enhance performance in rising markets but can adversely impact performance in falling markets.

Gearing represents borrowings at book less cash and cash equivalents expressed as a percentage of shareholders' funds.

Potential gearing is the Company's borrowings expressed as a percentage of shareholders' funds.

Equity gearing is the Company's borrowings adjusted for cash, expressed as a percentage of shareholders' funds.

## **Leverage (APM)**

For the purposes of the Alternative Investment Fund Managers (AIFM) Directive, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company's exposure and its net asset value and can be calculated on a gross and a commitment method. Under the gross method, exposure represents the sum of the Company's positions after the deduction of sterling cash balances, without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated without the deduction of sterling cash balances and after certain hedging and netting positions are offset against each other.

## **Active Share (APM)**

Active share, a measure of how actively a portfolio is managed, is the percentage of the portfolio that differs from its comparative index. It is calculated by deducting from 100 the percentage of the portfolio that overlaps with the comparative index. An active share of 100 indicates no overlap with the index and an active share of zero indicates a portfolio that tracks the index.

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