

Baillie Gifford™

Shin Nippon Trust PLC

Philosophy and Process



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Contents	Company information	02
	Philosophy	03
	Process	05
	Risk	07
	People and responsibilities	09
	Board	10
	About Baillie Gifford	13
	Contact	15

Company information

Baillie Gifford Shin Nippon PLC, (the ‘Company’) is an investment trust listed on the London Stock Exchange and is not authorised or regulated by the Financial Conduct Authority. As with any investment, your clients’ capital is at risk. A Key Information Document is available on request.

Company aims

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

Company history

Baillie Gifford Shin Nippon PLC was launched in July 1985 in order to capitalise on the investment opportunity available among companies too small and illiquid for Baillie Gifford Japan Trust PLC, which had been launched successfully four years before.

Shin Nippon, which means New Japan, has as its objective, the pursuit of long-term capital growth principally through investment in small Japanese companies which are believed to have above average prospects for capital growth.

There are several reasons why we believe the Japanese small capitalisation universe can be considered a particularly attractive asset class. First, many of the most interesting emerging service sectors in Japan, which are growing fast owing to corporate outsourcing and government deregulation, such as temporary labour provision and nursing care, consist entirely of small companies. Second, in certain sectors such as retail and finance the companies with the best niche positions, growth prospects and management teams tend to be small. Third, broker coverage of these stocks can be minimal, giving our Japanese Equities Team substantial potential to add value against the market through in-house research.

Company details

SEDOL	BFXYH24
ISIN	GB00BFXYH242
AIC sector	Japanese Smaller Companies
Comparative index	MSCI Japan Small Cap Index, total return, in sterling terms
Launch date	31 July 1985. Baillie Gifford have been the appointed investment managers since launch.
Year end	31 January
AGM	May
Results announced	March and September (typically)
Management details	Baillie Gifford & Co Limited is appointed as investment managers and secretaries to the Company. The management contract is reviewed annually and can be terminated at six months’ notice.
Annual management fee	Baillie Gifford & Co Limited’s annual remuneration is calculated as 0.75% on the first £50 million net assets of the Company attributable to its shareholders, the next £200m is calculated as 0.65%, thereafter 0.55%. This is calculated and payable on a quarterly basis.

Philosophy

We aim to create value for our investors by finding and investing in Japan's most promising growth companies. We do so, by employing a flexible approach to growth investing, and using time to our advantage.

Time is our greatest asset

Adopting a long-term approach allows us to frame investment opportunities differently to the rest of the market. We consider the unique attractions of individual companies, and we do so over five-year time periods and beyond. This long-term focus enables us to eschew the ephemeral vagaries of markets, cycles and share prices – to unearth exploitable and under appreciated opportunities that will ultimately deliver long-term out performance.

Long-term returns are determined, by seeking out, investing and continuing to back a relatively small number of exceptional businesses which grow to multiples of their starting size. This approach will inevitably lead to some mistakes along the way, but by focusing on opportunities for major upside potential and supporting them for significant periods of time – by running our winners – we are able to capture the inherent asymmetry of equity market returns.

Flexible approach to growth investing

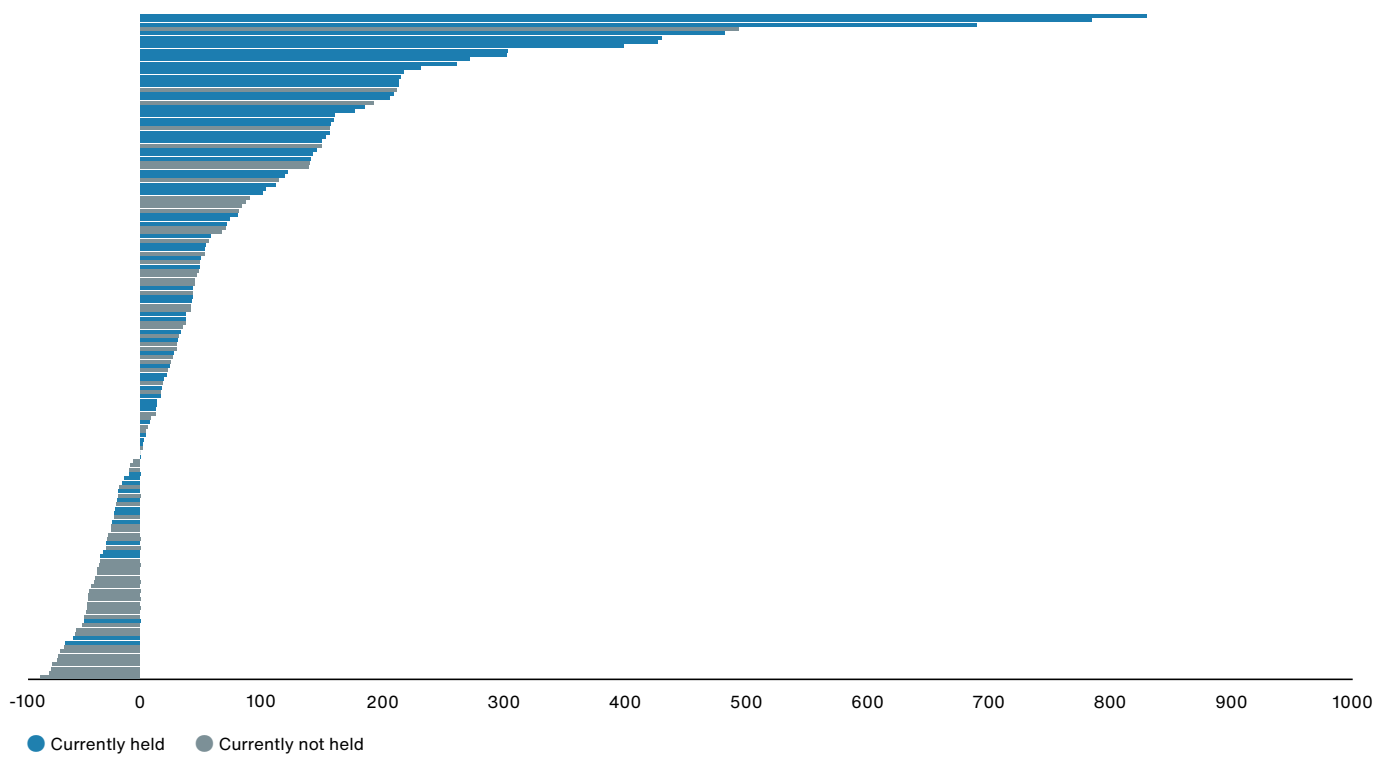
Our experience has highlighted that growth can come in various guises, from companies of all shapes and sizes. As such our portfolios are invariably built, from the bottom-up, with a diversified mix of companies from across all sectors and industries.

The commonality is that each investment must present a plausible pathway to doubling over a five-year period. But of course, there are various ways to climb a mountain. Be that through a gradual (compounding) approach, or via a more vertical (exponential) axis.

By focusing on businesses with attractive structural growth opportunities, with strong and sustainable competitive positions, high-quality earnings and aligned management we will optimise our exposure to Japan's best of breed growth opportunities.

Embracing asymmetry

10 years to 31 December 2023



Source: Revolution. Japanese Yen. As at 31 December 2023. Holding period returns based on Shin Nippon Trust PLC. Some stocks were only held for part of the period.

Process

We see Japan differently to others.

Idea generation

In pursuit of Japan's most attractive growth companies, we aim to generate original investment ideas by utilising a variety of sources. In addition to the more conventional inputs such as meetings with senior management and scrutinising company reports and accounts, we utilise private company analysis, bespoke and thematic reports from our independent researchers in Tokyo, investment trips (not limited to Japan), links with academia and industry experts.

Research and debate

Companies that pique our interest are subject to our four-factor investment framework analysis. This process is intended to focus attention on key fundamentals that we believe are most pertinent to delivering long-term growth. In order to make peer-to-peer comparison, we use a standard analytical framework:

01 Opportunity

How big is the opportunity over five-to-ten years?

First, we look at the favourableness of the environment in which the company operates.

Is this a blue ocean opportunity in terms of the addressable market? Are there favourable industry dynamics, such as weak incumbency? Is the industry or market undergoing structural change? What will be the effects of environmental and technological shifts in the long term and which companies are likely to benefit?

02 Resilience +

How durable/adaptable will the competitive advantage be in five years' time?

We then explore whether the company has identifiable qualities that we believe will allow it to thrive in the complex environment in which it operates.

One way of thinking about resilience is as dynamic and durable competitive advantage. How replicable is their edge, and is it sustainable? Another view is from the customers' perspective. How much value is the company adding? If it did not exist how much would it be missed? We are less interested in their competitive moat right now than, how deep it will be in five years' time and whether it will get deeper from there.

Another important aspect is the competence and alignment of management. Are leadership able to create new value organically? Is there a strong record of execution that gives us confidence in the future decisions? Can we see evidence of genuine ambition and vision? Are they aligned with wider stakeholders?

03 ESG

Taking in turn ESG factors, which do you believe are important and relevant to the investment case?

We believe that ESG factors can have a material impact on a company's ability to generate long-term value. As such, we explicitly address these issues within the research framework.

Here we explore how the company intends to address ESG factors. The relevance of each is based upon the perceived materiality to the long-term sustainability of the company's business. As a result, key ESG considerations will vary depending on the industry sector, and core business activities of each company.

The Japanese Equities Team have a dedicated ESG analyst who works collaboratively with the investment managers to assess sustainability factors as part of the decision making process.

04 Upside

What is the likelihood of over two times upside?

This dimension brings the investment case together, indicating to us whether a holding meets the high bar that we look for. We prefer to focus on the return we might realistically expect to make if we invest in the shares, aiming off conventional valuation metrics, which often tell us very little about the upside potential.

We assess the probability weighted average upside, considering both realistic base case scenarios as well as blue sky outcomes.

Decision

The final decision will lie with the manager of the strategy, depending on individual conviction and broader portfolio context, whilst taking any relevant guidelines into account.

To ensure enthusiastic participation in all discussions, the Japanese Equities Team is rewarded collectively on all of their assets under management, but in order to facilitate effective decision making, each model has a lead manager. Praveen Kumar is the manager and Brian Lum is co-manager for Shin Nippon. The investment managers meet formally twice a month to review existing portfolio holdings and when appropriate to make the case for new purchases.

Portfolio holding size is not formulaic but reflects the strength of conviction in a particular investment idea and an assessment of how much our view differs from the market. The team may add to or reduce position sizes when our relative convictions change, though generally our tendency is to run our winners.

Sell discipline

We believe that the application of an effective sell discipline allied to a willingness to run successful investments has made a key contribution to the generation of added value for our clients.

We continually monitor the same primary factors surrounding opportunity, resilience +, ESG and upside. If one or more fundamentally changes that will be a trigger to re-assess our holding. We do not normally sell a stock on valuation grounds alone.

Whenever significant news or information emerges for each stock in the portfolio, we assess and discuss whether it is material to our forward-looking investment hypotheses and act accordingly by reducing or exiting the position.

We take a five-year view when investing in stocks. Consequently, turnover tends to be relatively low.

Risk

The following are the main aspects of risk that we consider:

Fundamental analysis

Our first line of defence is extensive due diligence. New buy ideas – and current holdings – are subject to thorough reviews by the Japanese Equities Team, with input from a plurality of Baillie Gifford research teams.

Portfolio risk

We seek to maintain an appropriate level of diversification at the overall portfolio level by embracing pragmatic diversification guidelines which are formally reviewed on a regular basis.

Diversification guidelines

Number of stocks	Typically 40–80 holdings.
Holding size	<5% at time of purchase. Any holding that as a result of strong performance exceeds 5% is subject to further scrutiny.
Relative stock/sector weights	Although sector concentrations and the thematic characteristics of the portfolio are carefully monitored, there are no mechanistic limits to deviation from comparative index stock or sector weights.

Liquidity risk

We maintain a Product Group rule that we will not hold more than 10% of the portfolio in stocks where we hold more than ten days' trading volume at time of purchase. This ensures that the portfolio remains sufficiently liquid to enable positions to be exited or investor cash flows to be managed with minimal impact.

Independent oversight

We have an independent Investment Risk, Analytics and Research Department at Baillie Gifford which

provide value-added analysis on portfolios. This goes far beyond the concept of an investment risk function being only adversarial risk police. While part of their toolkit includes an ability to disagree and constructively oppose based on various oversight mechanisms and diversification guidelines, they also play a role as engagers of investment managers: providing perspectives on the portfolios (on capital allocation, behavioural biases and decision making analysis for example) with the aim of improving the investment process, to achieve better outcomes and minimise opportunity costs. This reflects our pragmatic approach to risk management.

The Company's board considers the following as principal risks:

Financial risk

The Company's assets consist mainly of listed securities (96.3% of the investment portfolio) and its principal financial risks are therefore market related and include market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk.

Private company (unlisted) investment risk

The Company's liquidity risk could be increased by its investment in private company securities. These assets may be more difficult to buy or sell, so changes in their prices may be greater than for quoted investments.

Investment strategy risk

Pursuit of an investment strategy to fulfil the Company's objective which the market perceives to be unattractive or inappropriate, or the ineffective implementation of an attractive or appropriate strategy, may lead to reduced returns for shareholders and, as a result, a decreased demand for the Company's shares. This may lead to the Company's shares trading at a widening discount to their net asset value.

ESG risk

Perceived problems on ESG matters in an investee company could lead to that company's share being less attractive to investors, adversely affect its share price. In addition, potential valuation issues may arise from any direct impact of the failure to address the ESG weakness on the operations or management of the investee company (for example in the event of an industrial accident or spillage). Repeated failure by the Managers to identify ESG weaknesses in investee companies could lead to the Company's own shares being less attractive to investors, adversely affecting its own share price.

Discount risk

The discount/premium at which the Company's shares trade relative to its net asset value can change. The risk of a widening discount is that it may undermine investor confidence in the Company and shareholders selling their shares will get less than the net asset value of those shares.

Regulatory risk

Failure to comply with applicable legal and regulatory requirements such as the tax rules for investment trust companies, the FCA Listing Rules and the Companies Act could lead to suspension of the Company's Stock Exchange listing, financial penalties, a qualified audit report or the Company being subject to tax on capital gains.

Custody and depositary risk

Safe custody of the Company's assets may be compromised through control failures by the Depositary, including breaches of cyber security.

Small company risk

The Company has investments 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.

Operational risk

Failure of Baillie Gifford's systems or those of other third party service providers could lead to an inability to provide accurate reporting and monitoring or a misappropriation of assets.

Cyber security risk

A cyber attack on Baillie Gifford's network or that of a third party service provider could impact the confidentiality, integrity or availability of data and systems.

Leverage risk

The Company may borrow money for investment purposes. If the investments fall in value, any borrowings will magnify the impact of this loss. If borrowing facilities are not renewed, the Company may have to sell investments to repay borrowings. The Company can also make use of derivative contracts.

Political and associated financial risk

The board is of the view that political change in areas in which the Company invests or may invest may have financial consequences for the Company.

Emerging risk

The board has regular discussions on principal risks and uncertainties, including any risks which are not an immediate threat but could arise in the longer term. The board considers that the key emerging risks arise from the interconnectedness of global economies and the related exposure of the investment portfolio to external and emerging threats such as the societal and financial implications of escalating geopolitical tensions, cyber security risks including developing AI and quantum computing capabilities, and new coronavirus variants or similar public health threats. This is mitigated by the managers' close links to the investee companies and their ability to ask questions on contingency plans. The managers believe the impact of such events may be to slow growth rather than to invalidate the investment rationale over the long term.

Further information can be found within the Annual Report.

People and responsibilities

Investment team

Management of the investment portfolio is led by Praveen Kumar and co-managed by Brian Lum. All members of the Japanese Equities Team have fundamental company research as their primary responsibility, regardless of whether they are investment managers or investment analysts. This reflects Baillie Gifford's view that stock selection based on fundamental research is the main opportunity to add value. Their sector research responsibilities encompass the full range of market capitalisation, from the largest companies in a sector down to interesting small companies. Thus every team member contributes ideas to the portfolio.



Praveen Kumar
Manager

Praveen is an investment manager in the Japanese Equities Team, He is co-manager of the Japanese Smaller Companies Strategy, the Shin Nippon Investment Trust, Developed Asia Pacific Strategy and deputy manager of the Baillie Gifford Japan Trust. He is also a founder and member of the International Smaller Companies Team. He joined Baillie Gifford in 2008 and previously worked for FKI Logistex. Praveen graduated Beng in Computer Science from Bangalore University in 2001, and completed an MNB from the University of Cambridge in 2008.



Brian Lum
Co-Manager

Brian is head of the Smaller Companies Team and lead investment manager of the International Smaller Companies Strategy. He has been a member of the International Growth Portfolio Construction Group since 2015. Brian is deputy manager of the Shin Nippon Investment Trust and Japanese Smaller Companies Strategy. Brian joined Baillie Gifford in 2006. He is a CFA Charterholder and graduated with an MSc and BA (Hons) in Physics from the University of Cambridge in 2006.

Board liaison



Alex Blake
Head of Investment
Trust Operations

Alex joined Baillie Gifford in 2014 and is Head of Investment Trust Operations. Previously, he qualified as a lawyer before joining the corporate finance department of an Investment Trust broker. Alex graduated LLB from the University of Edinburgh in 2005.

Board

The board has overall responsibility for the Company's affairs.

A number of matters are reserved for its approval including strategy, investment policy, currency hedging, gearing, treasury matters, dividend and corporate governance policy.

The board currently comprises of five directors, all of whom are non-executive. The executive responsibilities for investment management have been delegated to the Company's Managers and Secretaries, Baillie Gifford & Co Limited, and in the context of a board comprised entirely of non-executive directors, there is no chief executive officer. The directors believe that the board has a balance of skills and experience that enables it to provide effective leadership and proper governance of the Company.

**Professor Sethu
Vijayakumar**
Director

Professor Vijayakumar was appointed director in 2018. He is the Professor of Robotics at the University of Edinburgh and the (Founding) Director of the Edinburgh Centre for Robotics. He holds additional responsibility as the Programme Director for Artificial Intelligence at The Alan Turing Institute, London, where he helps shape the UK National roadmap in Robotics and Autonomous Systems. He is a world-renowned roboticist, pioneering the data driven control of several iconic robotic platforms including a recent collaboration with the NASA Johnson Space Centre on the Valkyrie humanoid robot being prepared for unmanned robotic pre-deployment missions to Mars. He is a Fellow of the Royal Society of Edinburgh, a judge on BBC Robot Wars and winner of the 2015 Tam Dalyell Prize for Excellence in engaging the public with science. Sethu has strong ties with Japan having spent seven years in Tokyo during his PhD and postdoctoral training, still closely collaborates with several R&D firms and multinationals on translational research projects and is a fluent Japanese speaker.

Kevin Troup
Chair

Kevin Troup was appointed to the board in 2020 and is chair of the Audit Committee. Kevin qualified as a Chartered Accountant in 1993 with Coopers & Lybrand. He started his Japanese investment career with Scottish Life in 1995 later becoming Head of Japan. In 2000 he joined Martin Currie Investment Management managing Japanese Smaller Companies. In 2004 he launched two Japanese Funds, a Mid-Cap Fund and was co-manager at launch for the Daijuro Absolute Return Fund responsible for picking small cap positions. Kevin joined the Global team at Standard Life Investments in 2010 launching a new Global Equity Income product and with responsibility for Japanese investments within a Global franchise. He retired in 2018 and is now a Director at Baring Fund Managers Limited, European Assets Trust PLC, BT Pension Scheme Management Limited and Kintail Trustees Limited, the corporate trustee of The Robertson Trust charity.

Abigail Rotheroe

Abigail was appointed to the board on 1 March 2022. Abigail is a CFA® charterholder whose investment career began at Schroder Capital Management in 1987 as an analyst on the Japanese desk. She worked in Hong Kong for Schroders and then HSBC, managing specialist Asia/Pacific equity portfolios for Japanese clients. On her return to London in 1994, she joined Threadneedle Investments with responsibility for the Threadneedle Asia Growth Fund, Threadneedle Asia and Pacific inc. Japan Growth Fund and the TIML India Fund. Since 2013 Abigail has been at the forefront of social and impact investing and has published broadly on the subject. In her most recent role as Investment Director of Snowball Impact Management, which she left in August 2022, she developed their leading approach to impact measurement and responsible investing. She is also a non-executive director of HydrogenOne Capital Growth plc and Templeton Emerging Markets Investment Trust plc.

Claire Finn

Claire was appointed to the board on 1 November 2021. Claire began her career in Japan in 1995 before moving back to the UK in 1999. She worked for Tokyo Mitsubishi Bank in London from 1999 to 2001. In 2001 she joined Henderson Global Investors undertaking roles in client service and product development. In 2005 Claire joined Merrill Lynch Investment Managers (MLIM) as Vice President of Product Development. MLIM was subsequently bought by BlackRock and Claire moved into the distribution team, rising to the position of Managing Director of Defined Contributions, Unit Linked and Platforms. Claire left BlackRock in 2018 and transitioned to a portfolio career in 2019. She is currently the chair of UBS Asset Management Life Limited, and a director of The Law Debenture Corporation PLC, Octopus Apollo VCT PLC, Artemis Fund Managers Limited and Sparrows Capital Limited.

Jamie Skinner
Chair

Jamie Skinner was appointed a director in 2018 and became chair in May 2023. Jamie is a qualified accountant and a fellow of the Chartered Institute for Securities and Investment. He joined Cazenove & Co in 1989 as a corporate finance executive working principally on investment companies and also other sector IPO activity, and in 1995 he was appointed Managing Director of the Johannesburg office. In 1999 he joined Martin Currie Investment Management Limited as a Director and in 2014 was appointed Head of Client Services. He served as President and CEO of The China Fund, Inc. until 2012, President and CEO of The Taiwan Fund, Inc. until 2014 and President of the Martin Currie Business Trust until 2015. He also served on the boards of Martin Currie, Inc. and the Martin Currie Japan Absolute Return Fund up to his retirement from Martin Currie on 31 July 2018. Jamie is a non-executive director of Ediston Property Investment Company plc and the Asian Opportunities Absolute Return Fund Limited and Audit Chair of the Ashoka India Equity Trust plc.

About Baillie Gifford

Baillie Gifford & Co is one of the leading privately owned investment management firms in the UK. Structured as a partnership, investment management is our sole business.

Baillie Gifford & Co is wholly owned by partners, all of whom work within the firm. We believe that the personal involvement in the business by the owners is crucial to maintaining the motivation and high standards essential to a modern investment house and maintaining a firm client focus.

A hallmark of the firm is the stability of our organisation and our commitment to continuing as an independent, private business based in Edinburgh. We are particularly proud of our low turnover of staff, both investment and administrative.

Baillie Gifford has a strong service culture. We make every effort to ensure that the service to investment trust boards and shareholders is of the highest possible standard.

Accounting and company secretarial services are provided by our in-house Investment Trust Department. This team currently provides these services to the other investment trusts managed by Baillie Gifford and one externally managed trust.

Investment Trusts and Investment Companies managed by Baillie Gifford

	Sector
Scottish Mortgage Investment Trust PLC	Global
The Monks Investment Trust PLC	Global
Keystone Positive Change Investment Trust plc	Global
The Scottish American Investment Company P.L.C.	Global Equity Income
Edinburgh Worldwide Investment Trust plc	Global Smaller Companies
The Baillie Gifford Japan Trust PLC	Japan
Baillie Gifford Shin Nippon PLC	Japanese Smaller Companies
Pacific Horizon Investment Trust PLC	Asia Pacific
Baillie Gifford US Growth Trust plc	North America
Baillie Gifford UK Growth Trust plc	UK All Companies
Baillie Gifford European Growth Trust plc	Europe
Baillie Gifford China Growth Trust plc	China
The Schiehallion Fund	Growth Capital

Differentiation

We believe a number of features differentiate Baillie Gifford's investment philosophy and process:

Fundamental style

We are fundamental investors. We undertake our own research with considerable emphasis on analysing companies' financial statements and assessing management.

Long-term investment horizon

Our aim is to select good quality stocks which will outperform over the long term. When assessing a stock, we look at a company's prospects over the next five years as opposed to the next five months.

Active portfolios

Having identified good quality stocks, we look to hold them in sufficient size to have a meaningful, positive impact on performance. We back our judgement.

Team-based decision making

We operate a genuine team approach. Portfolios reflect the views and contributions of each investment team.

Stability of investment staff

Our partnership structure encourages a high degree of stability within the investment teams. We believe this ability to own part of a successful, growing business is significantly more than just a financial incentive. In addition, even at non-partner level, profits are shared across a wide base of the employees.

Continuity and repeatability

Our approach to investment has been established over many years. The consistent application of this successful philosophy and process explains our historic performance record and underpins our confidence that performance can be maintained into the future.

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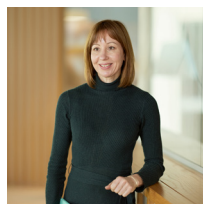
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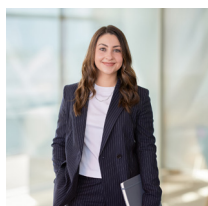
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Your call may be recorded for training purposes.

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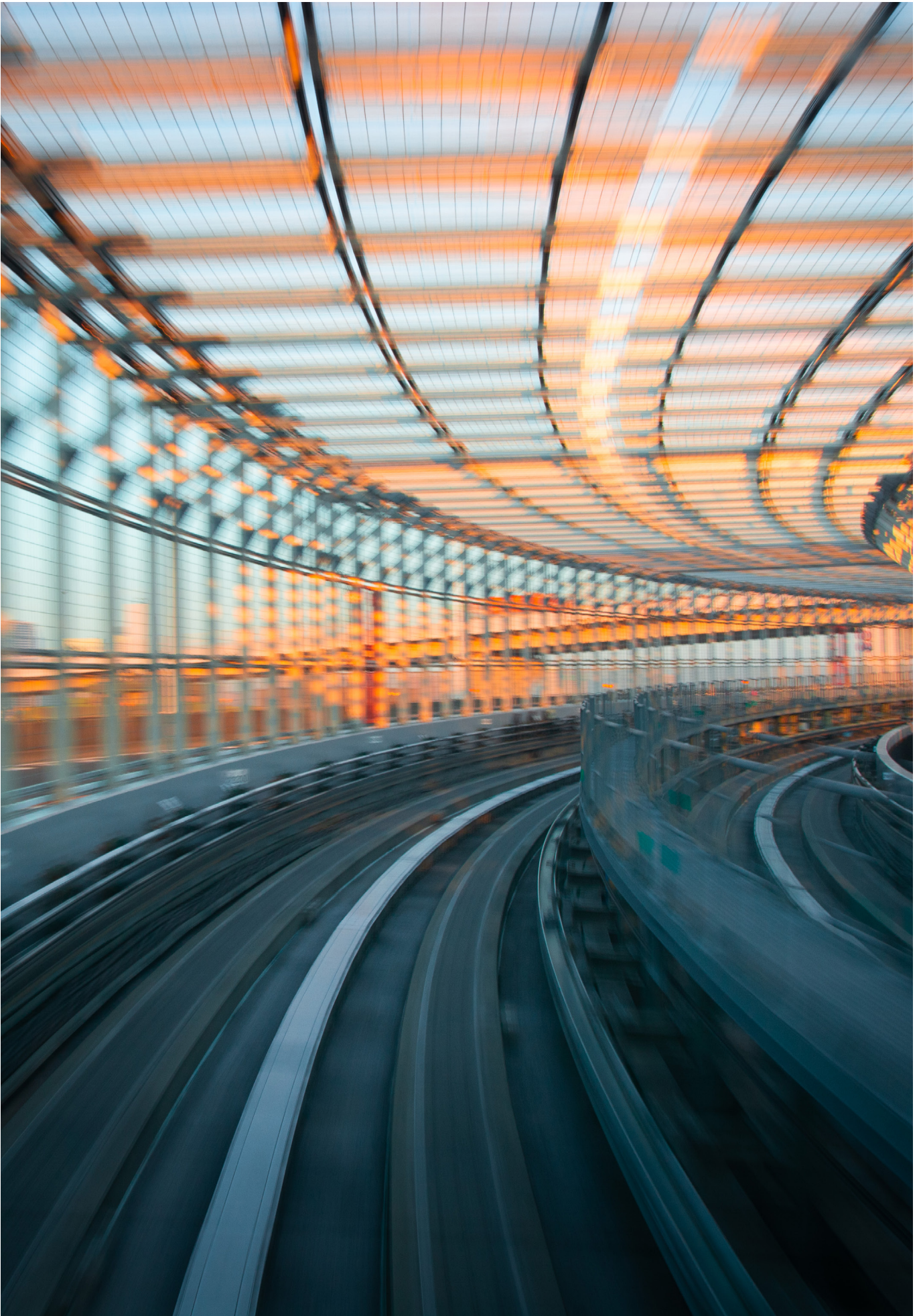
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The Company is listed on the London Stock Exchange and is not authorised or regulated by the Financial Conduct Authority. Baillie Gifford & Co Limited is authorised and regulated by the Financial Conduct Authority and is the authorised Alternative Investment Fund Manager and Company Secretary of the Company.

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bailliegifford.com/shinnippon

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