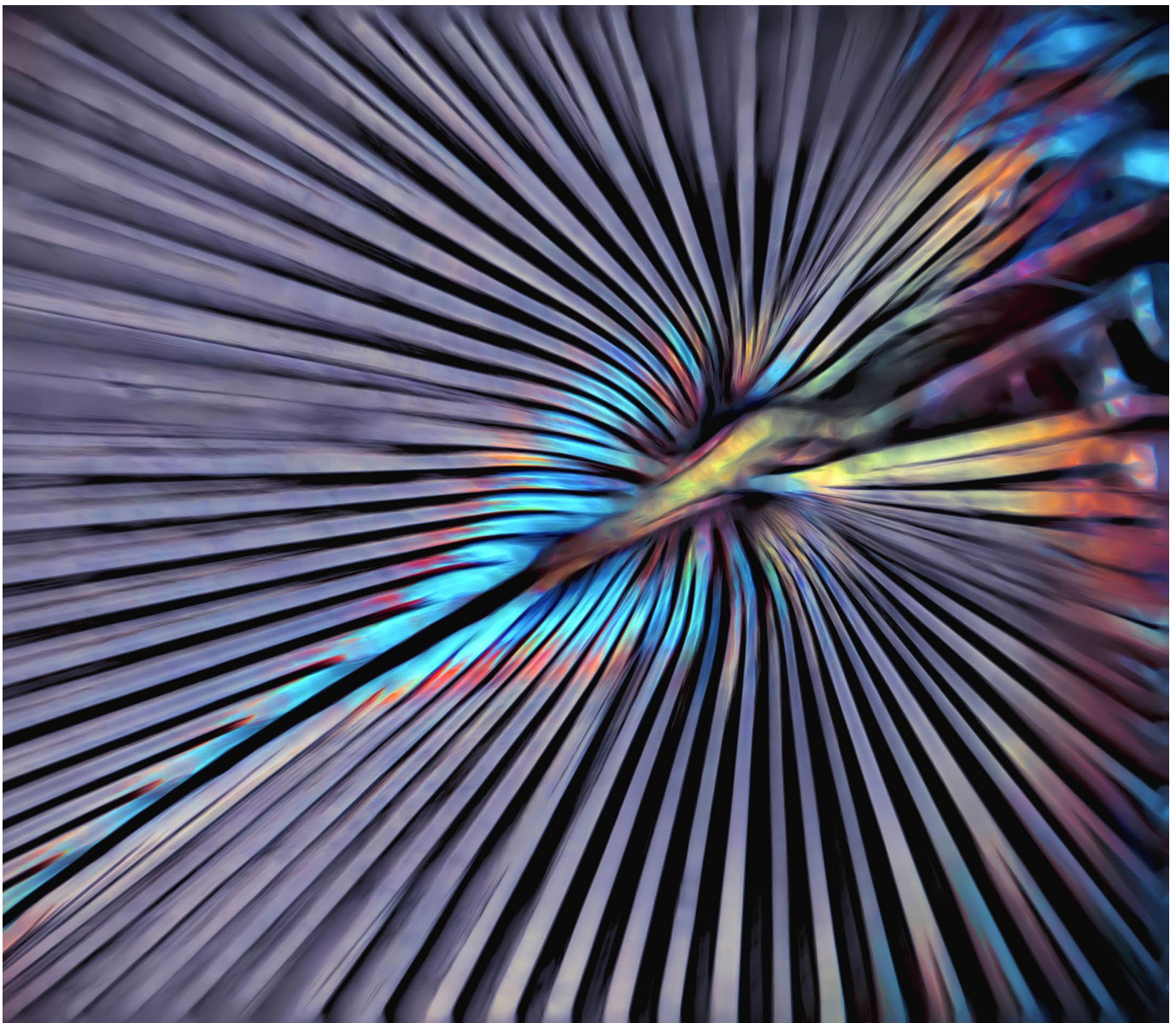


Japan Small Cap Quarterly Update

31 December 2024



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**Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +44 (0)131 275 2000 bailliegifford.com**

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Potential for Profit and Loss

All investment strategies have the potential for profit and loss.

Stock Examples

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Product Overview

Japanese Smaller Companies is a regional equity strategy that aims to produce above average long-term performance through investment in Japanese equities with a market cap of between Y50-150bn in any economic sector. We believe the Japanese equity market offers active managers a broad selection of high quality companies capable of delivering attractive and sustainable earnings growth for shareholders.

Risk Analysis

Key Statistics

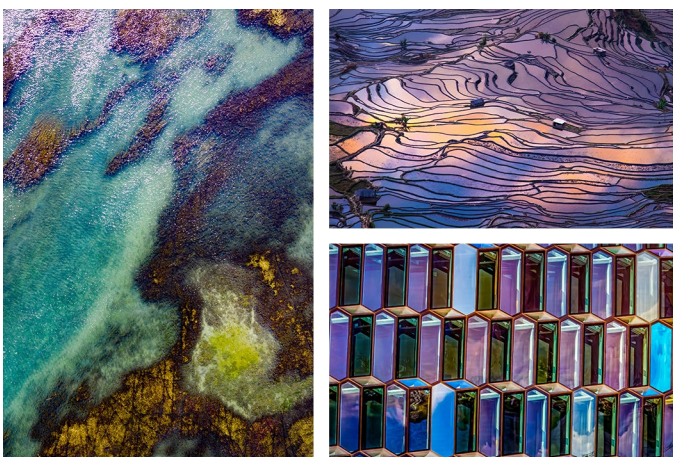
Number of Holdings	65
Typical Number of Holdings	40-80
Active Share	97%*
Annual Turnover	16%

*Relative to MSCI Japan Small Cap Index. Source: Baillie Gifford & Co, MSCI.

Portfolio companies are showing strong operational performance despite macro headwinds, demonstrating pricing power

The portfolio is trading at index-level valuations for the first time in a decade while maintaining superior growth prospects

We remain focused on identifying exceptional growth opportunities, particularly in companies driving change and benefiting from structural changes in Japan



Baillie Gifford Key Facts

Assets under management and advice	US\$272.3bn
Number of clients	613
Number of employees	1682
Number of investment professionals	375

A Lesson in Gaman

Gaman, the Japanese concept of enduring the seemingly intolerable with patience and dignity, perfectly encapsulates the mindset required in today's investment landscape.

As we come to the end of another year where performance has significantly lagged the benchmark, history has taught us that those who maintain composure through market adversity often reap the greatest rewards.

This test of composure is particularly evident in the macro environment, which continues to be the main driver of underperformance. The yen's significant depreciation has bolstered large exporters and hurt domestically focussed small caps through increased import costs. In addition, valuation compression persists, and small caps are trading at the widest discount to large caps since 2010.

While this underscores that we're at an extreme point, we believe it highlights an opportunity for 'gaman' investors to be rewarded for their patience in investing in Japanese small caps.

The portfolio is in a strong position. Over five years, delivered earnings growth has been twice that of the index. Also, 56% of the current portfolio is in the top two quintiles of projected earnings growth, which is 1.6x as much as the index. Most importantly, data and experience tell us that the highest rates of earnings growth have historically reaped the highest returns.

With the portfolio trading at index-level valuations for the first time in a decade, while maintaining superior growth prospects, we believe this highlights an exceptional opportunity. It is only a matter of time before these overlooked companies are rewarded.

Patience Rewarded

The things companies can control are going well. Areas where we think the portfolio has an advantage over the broader market are pricing power and growth underpinned by structural change. Most of the companies are delivering operationally, although this is currently only being rewarded in share price terms for some.

SWCC, the electric cable and connector manufacturer is one example where the share price is up more than 160% this year. Under the leadership of CEO Takayo Hasegawa, one of

Japan's rare female engineering leaders, SWCC has transformed from a traditional manufacturer into a dynamic industry powerhouse. The 88-year-old company has achieved remarkable growth, expanding production capacity by 50% in the past year to meet surging demand. Its market position strengthened significantly following a direct competitor's withdrawal from the market, giving SWCC unprecedented pricing power despite higher costs.

The company's success is reflected in its impressive 133% increase in operating profit for the first half of this year, driven by two key factors: robust demand for power infrastructure upgrades from electrical utilities, and an innovative business model where SWCC dispatches its own engineers for installations. This dual approach of product leadership and service provision has proven particularly valuable in addressing Japan's acute labour shortage in the construction sector.

Recent meetings with the company indicate this momentum is building, suggesting SWCC's growth trajectory will continue as Japan's power companies invest heavily in infrastructure modernisation.

Another example is Lifenet Insurance, the largest position in the portfolio that offers plain-vanilla life insurance. Its direct-to-consumer digital insurance model resonates strongly with younger demographics; currently, 70% of customers are under 40. The company's focus on streamlining the entire customer journey - from product discovery to claims processing - has built its strong reputation within the industry.

Recent performance validates Lifenet's strategy, with both policy count and annualised premiums doubling in the past year. Notably, the company has successfully implemented price increases while maintaining strong growth, demonstrating pricing power and brand strength.

Its customer focus, backed by skills and expertise in systems development, makes it more like a hybrid between an insurer and an Internet business. Gradually, more third-party businesses are keen to team up with Lifenet, and the regulatory environment in Japan makes it difficult for new entrants, cementing an advantage. As more consumers shift online, we think Lifenet will continue to attack this large traditional industry.

Similar examples exist across the portfolio, from companies as diverse as Yonex, the global badminton racket brand, to Peptidream, a

biopharmaceutical company. We're encouraged by the resilience shown during this challenging period. Companies are continuing to spend on research and development, gross margins are increasing, and many are executing on opportunities that are underpinned by long-term structural growth drivers.

Patience Tested

Shifting to the broader market environment – as ever, the things companies can't control remain challenging. The yen weakness has been a tailwind for many large exporters, but a headwind for domestic-focused companies.

The portfolio derives more than 70% of revenues from Japan and in addition to these companies exposed to China have been a source of weakness. In recent years in China, a slowing economy, rising domestic competition and geopolitical tensions have all been an obstacle. Companies such as Horiba, IRISO, Nifco and SIIX all manufacture critical components for the automotive market in China and because of reduced spending in this end-market, it has had a knock-on impact on these companies' sales.

However, this is not a large area of exposure for the portfolio; currently, only 7% of revenues come from China and the companies that are exposed have still maintained their global positions. Additionally, we view the recent China stimulus announcement as positive for the economy and believe it will help to kickstart spending and fresh investment.

Another source of weakness impacting one name in the portfolio has been regulation. Litalico, the disability welfare service provider has suffered in the short term due to changes in regulation that have resulted in lower sales in its child welfare segment. However, management has repositioned the business to make up for lost revenue and remains confident of a strong recovery. Regardless of this, the vocational welfare segment continues to perform well and is experiencing healthy sales and profit growth. A recent meeting with the founder reassured that he is pivoting the business to meet the new regulations. We will continue to monitor progress closely.

Positioning for Growth

This year we added five new companies to the portfolio and sold out of 14. The number of sales was higher than normal, but turnover remained low at 17% reflecting that they were small positions within the portfolio.

Three of the sales, Descente, Outsourcing, and Snow Peak, were forced transactions because of the companies undergoing management buyouts (MBOs). This reflects a broader trend in Japan. In 2023, MBOs reached unprecedented levels, with the total value hitting ¥1.47 trillion, a fivefold increase from the previous year. The main drivers behind this are the increased corporate governance requirements from the Tokyo Stock Exchange and pressure from activist investors. Given the valuation gap between small caps and large caps, it is likely this trend will continue.

The remainder of the sales were due to the investment case no longer meeting the high bar that we are looking for and a desire to push the portfolio towards more domestic-focused companies, some examples included Nabtesco, Daikyonishikawa and Enechange. Some were also long-standing holdings that had delivered a strong return over their holding period, but where the growth prospects from here onwards were less appealing, for example, M3 and Nihon M&A. Competition for capital across the portfolio remains high, and every company must justify its place in the portfolio.

The new names added to the portfolio reflect a change in where we're finding opportunities. We have become more open minded to the type of sectors where previously it has been hard to find growth, such as utilities and food services. The addition of Gift Holdings, Japan's leading ramen restaurant chain and Inforich, Japan's largest mobile device charging station operator are examples of this.

There is also no shortage of new ideas being considered for the portfolio. Genda, the claw machine company, and ASKA Pharmaceuticals are two we have met with recently. The IPO market in Japan is also coming back to life, which helps to expand the pool we're fishing in. In total, 2024 saw 69 listings raising ¥723bn, an increase of 275% over the previous year.

Looking Ahead with Gaman

While Japanese small-caps face headwinds from macro factors, the fundamentals of the portfolio companies remain robust.

The portfolio's earnings growth continues to outpace the index by a significant margin, and the companies demonstrate strong resilience and pricing power. The record high number of MBOs signals the recognition of the valuation opportunity in the small-cap space.

We remain focused on identifying exceptional growth opportunities, particularly in companies driving change and benefiting from structural changes in Japan.

We don't know when the market will fully appreciate the strong fundamentals of the companies in the portfolio. But we do know that we're well-positioned for the rebound. Until then, we look ahead with Gaman.

Performance Objective

2%+ p.a. over 5 years vs index.

The performance objective is aspirational and is not guaranteed. We don't use it to compile the portfolio and returns will vary. A single performance objective may not be appropriate across all vehicles and jurisdictions. We may not meet our investment objectives if, for example, our growth investment style is out of favour, or we misjudge the long-term earnings growth of our holdings.

Periodic Performance

GBP	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	-0.4	0.8	-1.1
1 Year	-9.3	6.7	-16.0
3 Years	-13.6	4.4	-18.1
5 Years	-6.8	3.1	-9.9
10 Years	5.7	8.6	-2.9
Since Inception	4.5	3.4	1.1
USD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	-7.0	-5.9	-1.1
1 Year	-10.9	4.8	-15.7
3 Years	-15.8	1.7	-17.6
5 Years	-7.8	2.0	-9.8
10 Years	3.4	6.2	-2.8
Since Inception	3.7	2.6	1.1
EUR	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	0.3	1.4	-1.1
1 Year	-4.9	11.8	-16.7
3 Years	-13.2	5.0	-18.1
5 Years	-6.3	3.6	-10.0
10 Years	5.0	7.9	-2.9
Since Inception	4.0	2.9	1.1
CAD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	-1.0	0.2	-1.1
1 Year	-2.8	14.3	-17.1
3 Years	-12.1	6.2	-18.4
5 Years	-5.9	4.1	-10.0
10 Years	5.7	8.5	-2.9
Since Inception	4.4	3.3	1.1
AUD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	4.2	5.4	-1.2
1 Year	-1.8	15.5	-17.3
3 Years	-11.2	7.3	-18.6
5 Years	-5.5	4.6	-10.1
10 Years	6.3	9.2	-2.9
Since Inception	4.4	3.3	1.1

Annualised periods ended 31 December 2024. 3 Month & 1 Year figures are not annualised.

Inception date: 31 December 1989

Figures may not sum due to rounding.

Benchmark is MSCI Japan Small Cap Index (Market cap weighted composite index of TOPIX 2nd Section, TOPIX Small & Jasdac prior to 30 April 2010).

Source: Revolution, MSCI, Tokyo Stock Exchange.

The Japan Small Cap composite is more concentrated than the MSCI Japan Small Cap Index.

Discrete Performance

GBP	31/12/19- 31/12/20	31/12/20- 31/12/21	31/12/21- 31/12/22	31/12/22- 31/12/23	31/12/23- 31/12/24
Composite Net (%)	28.8	-15.3	-19.9	-11.4	-9.3
Benchmark (%)	3.5	-1.0	-0.6	7.4	6.7
USD	31/12/19- 31/12/20	31/12/20- 31/12/21	31/12/21- 31/12/22	31/12/22- 31/12/23	31/12/23- 31/12/24
Composite Net (%)	32.9	-16.1	-28.9	-6.1	-10.9
Benchmark (%)	6.8	-1.9	-11.7	13.8	4.8
EUR	31/12/19- 31/12/20	31/12/20- 31/12/21	31/12/21- 31/12/22	31/12/22- 31/12/23	31/12/23- 31/12/24
Composite Net (%)	21.9	-9.7	-24.2	-9.2	-4.9
Benchmark (%)	-2.0	5.5	-5.9	10.0	11.8
CAD	31/12/19- 31/12/20	31/12/20- 31/12/21	31/12/21- 31/12/22	31/12/22- 31/12/23	31/12/23- 31/12/24
Composite Net (%)	30.6	-16.8	-23.7	-8.6	-2.8
Benchmark (%)	5.0	-2.8	-5.3	10.7	14.3
AUD	31/12/19- 31/12/20	31/12/20- 31/12/21	31/12/21- 31/12/22	31/12/22- 31/12/23	31/12/23- 31/12/24
Composite Net (%)	21.1	-10.9	-23.7	-6.6	-1.8
Benchmark (%)	-2.7	4.1	-5.3	13.1	15.5

Benchmark is MSCI Japan Small Cap Index (Market cap weighted composite index of TOPIX 2nd Section, TOPIX Small & Jasdac prior to 30 April 2010).

Source: Revolution, MSCI, Tokyo Stock Exchange.

The Japan Small Cap composite is more concentrated than the MSCI Japan Small Cap Index.

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to 31 December 2024

Stock Name	Contribution (%)
Wealthnavi	1.1
Cybozu	0.7
SWCC Showa	0.7
Megachips	0.4
GA technologies	0.4
Gift Holdings	0.4
Noritsu Koki	0.3
Katitas	0.3
eGuarantee	0.2
Nittoku	0.2
Toyo Tanso	-0.6
Amvis	-0.5
Appier	-0.5
Bengo4.com	-0.4
Litalico	-0.4
Cosmos Pharmaceutical	-0.4
Global Security Experts	-0.3
Nakanishi	-0.3
Jade	-0.3
Seria	-0.2

One Year to 31 December 2024

Stock Name	Contribution (%)
SWCC Showa	1.7
Lifenet Insurance	1.0
Noritsu Koki	0.9
Yonex	0.8
Kohoku Kogyo	0.7
Cybozu	0.5
Megachips	0.4
Gift Holdings	0.4
Peptidream	0.4
MonotaRO	0.3
Litalico	-1.6
Bengo4.com	-1.2
GMO Financial Gate	-1.2
Cosmos Pharmaceutical	-1.0
Infomart	-0.9
SpiderPlus	-0.8
Fujikura (Cable)	-0.8
Asahi Intecc	-0.8
SIIX	-0.7
Enechange	-0.6

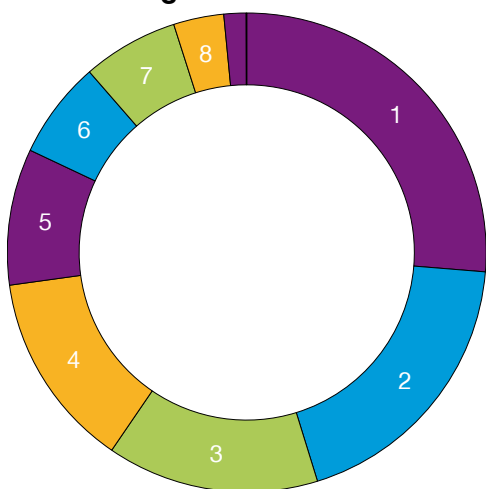
Source: Revolution, MSCI. Japan Small Cap composite relative to MSCI Japan Small Cap Index.

The holdings identified do not represent all of the securities purchased, sold or held during the measurement period. Past performance does not guarantee future returns. A full list showing all holdings' contributions to the portfolio's performance and a description on how the attribution is calculated is available on request. Some stocks may not have been held for the whole period. All attribution figures are calculated gross of fees, relative to the index from stock level up, based on closing prices. As attribution is shown relative to the benchmark, not all stocks shown are held in the portfolio.

Top Ten Holdings

Stock Name	Description of Business	% of Portfolio
Lifenet Insurance	Provides a range of life insurance products and services.	3.6
KATITAS	Real estate services	3.4
Nifco	Value-added plastic car parts	3.3
Yonex	Sporting goods	3.0
SWCC Corporation	Japan-based holding company mainly engaged in the electrical wire rod business	3.0
MegaChips	Electronic components	2.9
WealthNavi	Operates a wealth management platform	2.9
JEOL	Manufacturer of scientific equipment	2.8
Cosmos Pharmaceutical	Drug store chain	2.6
Noritsu Koki	Holding company with interests in biotech and agricultural products	2.5
Total		29.8

Sector Weights



	%
1 Industrials	26.3
2 Information Technology	18.9
3 Consumer Discretionary	14.3
4 Financials	13.3
5 Communication Services	9.2
6 Health Care	6.6
7 Consumer Staples	6.5
8 Real Estate	3.4
9 Materials	1.5
10 Cash	0.0

Figures may not sum due to rounding.

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	8	Companies	None	Companies	None
Resolutions	62	Resolutions	None	Resolutions	None

Company Engagement

Engagement Type	Company
Environmental	Demae-Can Co.,Ltd, Seria Co., Ltd., Shoei Co., Ltd.
Social	KH Neochem Co., Ltd., SWCC Corporation
Governance	CellSource Co., Ltd., Demae-Can Co.,Ltd, GMO Financial Gate, Inc., GMO Payment Gateway, Inc., Raksul Inc., SWCC Corporation, Seria Co., Ltd., Shoei Co., Ltd.
Strategy	CellSource Co., Ltd., KH Neochem Co., Ltd., SWCC Corporation

Company	Engagement Report
KH Neochem	<p>Objective: KH Neochem researches, manufactures, and sells petrochemical products in Japan and internationally. With the company having faced several operational challenges in recent years, we met with the chief financial officer (CFO) to discuss planned steps to improve operational performance.</p> <p>Discussion: The CFO provided background on the operational issues experienced, which included extended periods with no supplies due to production issues and safety concerns at facilities. The CFO discussed measures that KH Neochem has put in place to improve the safety and resilience of its operations. These include introducing a new predictive maintenance system to avoid workplace accidents, digitalising more of its daily inspections, and a policy to build up more inventory ahead of scheduled shutdowns to prevent extended periods with no supplies. The company also intends to insource the production of certain raw materials to improve supply reliability.</p> <p>Outcome: The steps outlined ease concerns regarding the issues that have impacted the company in recent years. We will continue to monitor the company's operational and safety performance as these measures take effect.</p>
SWCC	<p>Objective: We met with an independent director who offered a unique opportunity to discuss SWCC's approach to governance and its evolution over time.</p> <p>Discussion: SWCC Corp's governance structure has evolved since 2015, reflecting a strategic alignment with Japan's changing corporate governance code. The appointment of external directors with relevant experience signalled a shift towards a more considered board composition. This move facilitated the promotion of Hasegawa-san as chief executive officer (CEO), who has been instrumental in SWCC's efficiency and growth since her appointment.</p> <p>Discussion: The director's insights revealed a board deeply involved in steering the company towards efficiency improvements and a focus on return on invested capital (ROIC). The narrative of SWCC's governance journey is one of timely, decisions that have cumulatively enhanced its market position. The board's evolution, particularly the separation of the CEO and president roles, aims to further refine strategic oversight and long-term planning.</p> <p>A cultural shift towards meritocracy underpins these changes, with a notable emphasis on talent recognition and promotion from within. The discussion on incentives highlighted a considered approach to aligning executive compensation with shareholder interests, suggesting an openness to evolving these practices in alignment with broader governance principles.</p> <p>We provided feedback on the remuneration structure, such as how increasing the proportion of long-term variable and stock-based compensation would further align with shareholders and provide longer time horizons.</p> <p>Outcome: The dialogue with SWCC provided valuable insights into the mechanisms driving its governance success, particularly the role of external directors in championing strategic and cultural shifts. This engagement also highlights potential pathways for enhancing corporate governance across its portfolio. We will continue to monitor changes at SWCC and hope to draw lessons from their evolution over time.</p>

Votes Cast in Favour

Companies	Voting Rationale
Amvis Holdings, Inc. Com Stk, Crowdworks, Demae-Can, GMO Financial Gate Inc, GMO Payment Gateway, I-ne, Raksul Inc, Shoei Co Ltd	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

We did not vote against any resolutions during the period.

Votes Abstained

We did not abstain on any resolutions during the period.

Votes Withheld

We did not withhold on any resolutions during the period.

There were no new purchases during the period.

Complete Sales

Stock Name	Transaction Rationale
Amvis	Amvis is Japan's leading operator of chronic and terminal care hospices. It addresses a growing need represented by an ageing society, growing cancer rates, rising hospital service costs, and longer hospital stays. One of its industry peers, Sunwels, recently faced allegations of improper billing of vulnerable patients. While this problem was specific to Sunwels and had nothing to do with Amvis, the ensuing media and customer scrutiny of the entire sector has taken an immense toll on nurses and caregivers, leading to mental health issues in many cases. In response, Amvis management have decided to change strategy, shifting from a high growth model to a more sustainable growth model. What this means in practice is a meaningful rise in costs leading to lower long-term margins. Following a call with the founder, we got the impression that these changes were not temporary but structural in nature. As a result, we feel the risk/ reward profile of Amvis has changed significantly. We also cannot rule out any adverse regulatory changes in future as a result of the Sunwels scandal. In view of all this, we have decided to sell our entire holding.

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