

# THE BAILLIE GIFFORD JAPAN TRUST PLC

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Annual Report and Financial Statements  
31 August 2019



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## Investor Disclosure Document

The EU Alternative Investment Fund Managers Directive requires certain information to be made available to investors prior to their investment in the Company. The Company's Investor Disclosure Document is available for viewing at [www.japantrustplc.co.uk](http://www.japantrustplc.co.uk).

### Notes

None of the views expressed in this document should be construed as advice to buy or sell a particular investment. Investment trusts are UK public listed companies and as such comply with the requirements of the UK Listing Authority. They are not authorised or regulated by the Financial Conduct Authority (FCA).

The Baillie Gifford Japan Trust PLC currently conducts its affairs, and intends to continue to conduct its affairs, so that the Company's Ordinary Shares can qualify to be considered as a mainstream investment product and can be recommended by Independent Financial Advisers to ordinary retail investors in accordance with the rules of the FCA in relation to non-mainstream investment products.

### **THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

If you are in any doubt as to the action you should take you should consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser.

If you have sold or otherwise transferred all of your ordinary shares in The Baillie Gifford Japan Trust PLC, please forward this document, together with any accompanying documents, but not your personalised Form of Proxy, as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was or is being effected for delivery to the purchaser or transferee.



Illustration:  
Hakuro-jō (White Egret) Castle at Himeji.

**The Baillie Gifford Japan Trust PLC aims to achieve long term capital growth principally through investment in medium to smaller sized Japanese companies which are believed to have above average prospects for growth.**

## Financial Highlights – Year to 31 August 2019\*

**NAV -5.3%**

**Share Price -7.4%**

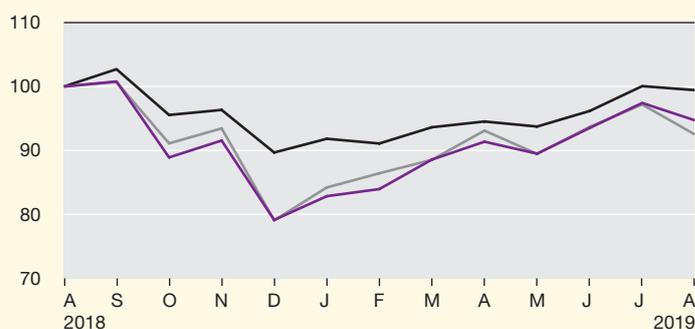
**Benchmark† -0.5%**

All figures total return#.

### NAV, Share Price and Benchmark Total Return

(figures rebased to 100 at 31 August 2018)

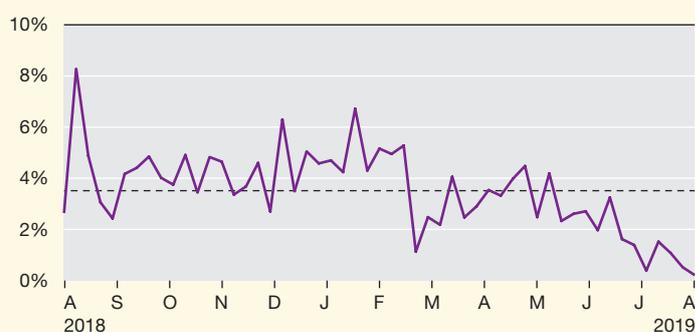
- NAV (after deducting borrowings at fair value#)
- Share price
- Benchmark†



### Premium to Net Asset Value

(figures plotted on a weekly basis)

- Premium (after deducting borrowings at fair value#)
- - - - Average premium (after deducting borrowings at fair value#)



\* Comparative figures for the prior year, see page 4.

† The benchmark is the TOPIX total return (in sterling terms).

# Alternative performance measure, see Glossary of Terms and Alternative Performance Measures on pages 57 and 58.

Source: Baillie Gifford/Refinitiv and relevant underlying index providers. See disclaimer on page 56.

Past performance is not a guide to future performance.

## Strategic Report

The Strategic Report, which includes pages 2 to 18 and incorporates the Chairman's Statement has been prepared in accordance with the Companies Act 2006.

## Chairman's Statement

This has been a more downbeat year than we have been used to for the Japan Trust with net asset value total return (after deducting borrowings at fair value) falling 5.3% compared to the 0.5% fall in the benchmark TOPIX index total return (in sterling terms). After exceptional strength in 2018 the share price total return fell back by 7.4% to 791.0p, while the Company's shares continued to trade at a premium to NAV during most of the year (after deducting borrowings at fair value) registering a 0.2% premium at 31 August 2019.

Short term reverses are part and parcel of investing and our emphasis remains on the long-term investment strategy of the Japan Trust as seen in our strong five and ten year records. The Company's NAV has risen 123% over five years and 326% over ten years compared to the index total return of 76% over five years and 126% over ten years. The share price has risen 125% over five years and 416% over ten years. In recent years the Managers have enjoyed an extremely successful stock selection track record, bolstered by additional benefits from gearing. During the year to August 2019 this has not been the case, despite little change in stock selection, and the Manager still believes there remains significant potential for gains across our portfolio. As stock markets have been uneasy, gearing has also acted as a drag on performance rather than as a positive contributor. Further performance details are to be found in the Managers' Report.

Investment income continued to rise, this time by £2.6 million to £13.5m for the year, due in the main to the continuing increase in dividends from our Japanese investments. Expenses fell by £0.23 million in the period, due mostly to lower management fees (down £0.2 million) as the reduced fee level on the first £50 million of assets came into play on 1 January 2019 (down to 0.75% from 0.95%). Overall revenue return per share was 5.18p (2018 – 2.54p) while ongoing charges for the year reduced slightly to 0.70% (2018 – 0.73%).

### Gearing

Gearing amounted to 11% of shareholders' funds at the start of the year and ended the year at 12%. Gross borrowings in Yen remained stable at ¥16.5 billion (2018 – ¥16.5 billion), while the sterling value of these loans in the balance sheet rose to £127.6 million by the year-end (2018 – £114.5 million). Given the ongoing low cost of yen loans, we continue to believe that borrowing to invest in Japanese equities is a sensible strategy.

### Dividend

The Company's objective is, and has always been, to achieve long term capital growth and investors should not expect to receive consistent income. Last year our longstanding revenue reserve deficit was extinguished and, with revenue income currently outweighing expenditure, we will distribute revenue reserves in line with the requirements of the Companies Act.

On that basis, a final dividend of 3.50p per ordinary share will be put to shareholders for approval at the Annual General Meeting to be held on 5 December 2019 and, if approved, will be paid on 13 December 2019 to shareholders on the register at the close of business on 15 November 2019. A dividend reinvestment plan (DRIP) is available to shareholders who would prefer to invest their dividends in the shares of the Company. The shares will go ex-dividend on 14 November 2019. For those shareholders electing to receive the DRIP the last date for receipt of election is 22 November 2019.

### Share Capital

The Company did not exercise its share buy-back powers during the year; however, your Board believes it is important that the Company retains this power and so, at the Annual General Meeting, is seeking to renew this facility. The Company also has authority to issue new shares and to reissue any shares held in treasury for cash on a non-pre-emptive basis. Shares are issued/reissued only at a premium to net asset value, thereby enhancing net asset value per share for existing shareholders. During the year to 31 August 2019, 1.965m shares were issued at a premium to net asset value raising proceeds of £15.6m, continuing the trend of recent years. The Directors are, once again, seeking 10% share issuance authority at the Annual General Meeting and we would continue to issue shares only when at a premium to net asset value. This authority would expire at the conclusion of the Annual General Meeting in 2020.

### Continuation Vote

Our shareholders have the right to vote annually on whether the Company should continue in business and will have the opportunity to do so again at the Annual General Meeting to be held on 5 December 2019. Last year, the Company again received support for its continuation. Your Directors still believe there are still attractive opportunities in selected, well-run Japanese companies benefiting the long-term favourable outlook for the Japan Trust. To that end, my fellow Directors and I intend, where possible, to vote our own shareholdings in favour of the resolution and hope that all shareholders will feel disposed to do likewise.

Past performance is not a guide to future performance.

## Board

Your Board is committed to high standards of corporate governance. In particular, it recognises the need for a balance of skills, experience, diversity and length of service amongst its Non-Executive Directors, all of which forms part of our succession planning discussions during Nomination Committee meetings. Given the above, and having overseen the changing of the guard from Sarah Whitley to Matthew Brett as Portfolio Manager, closely followed by appointments of two outstanding female Non Executive Directors, I am standing down as your Chairman at the AGM.

I have served on the Board since 2003, and been your Chairman for 5 years witnessing significant growth of the fund in that period and leave the Company in the excellent hands of both Matthew Brett as Manager and Keith Falconer as Chairman. Keith steps up from chairing the Audit Committee to be succeeded by Sharon Brown who, following a robust recruitment process earlier in the year, joined our Board on 3 October and will become Audit Chair after the AGM. We are delighted to welcome Sharon to the Board and I look forward to observing as a shareholder in the years ahead as she, Keith and the rest of your Board continue to provide excellent stewardship for Baillie Gifford Japan Trust.

## Outlook

The Trust invests for the medium to longer term and on this basis our Managers have continued to find interesting companies operating in both domestic and export markets in which to invest. The Trust has enjoyed success with their 'bottom-up' approach to stock picking which has added significantly to the value of the portfolio and we, as a Board, believe there remain numerous opportunities for investment in Japanese companies able to capitalise on the changes within the wider economy. Although the Trust concentrates much more closely on micro than macro issues, it is worth reflecting on some of the latter given that Prime Minister Shinzo Abe has two years left in power as leader of the ruling Liberal Democratic Party making him Japan's longest serving Prime Minister. He remains pro-growth and pro-business, and is expected to bring a renewed focus on structural reform, entrepreneurship and industrial reorganisation while maintaining a high level of economic policy coordination. In October, the Government raised the sales tax from 8% to 10% which may impact consumer spending in the short term. However, the labour market continues to tighten thus stimulating labour market related innovation among companies in which the Trust has invested. Corporate governance remains an important pillar of the Government's economic programme and we see ongoing progress in this area. Your Trust continues to examine attitudes to corporate governance in the companies considered for investment.

A significant boost to the country's morale was felt in May when Crown Prince Naruhito acceded to the throne on the abdication of His Majesty Emperor Akihito, ushering in the new Reiwa era, meaning beauty and harmony. The onset of the new era is expected to encourage a fresh focus on innovation and revitalisation of the economy.

As was the case in my last report, there remain some political tensions in the region. The deterioration in US-China trade relations has increased US pressure on its trade relations with Japan, and a downturn in Japan-South Korea relations is straining US-Japan-South Korea cooperation over East Asian security issues. Ongoing missile testing by North Korea is adding to tensions. Despite these macro issues, we remain positive on the outlook for investments in the Baillie Gifford Japan Trust portfolio over the medium to longer term.



Nick AC Bannerman  
Chairman  
8 October 2019

## One Year Summary

	31 August 2019	31 August 2018	% change
Total assets (before deduction of bank loans)	£859.7m	£870.6m	
Bank loans	£127.6m	£114.5m	
Shareholders' funds	£732.1m	£756.1m	
Net asset value per share (after deducting borrowings at fair value)†#	789.3p	834.0p	(5.4)
Net asset value per share (after deducting borrowings at par value)†#	792.1p	835.8p	(5.2)
Share price	791.0p	855.0p	(7.5)
TOPIX total return (in sterling terms)*			(0.5)
Yen/sterling exchange rate	129.3	144.1	10.3
Revenue earnings per ordinary share	5.18p	2.54p	
Ongoing charges#	0.70%	0.73%	
Premium (after deducting borrowings at fair value)†#	0.2%	2.5%	
(Discount)/premium (after deducting borrowings at par value)†#	(0.1%)	2.3%	
Active share†#	84%	84%	

Year to 31 August	2019	2018
<b>Total returns# (%)</b>		
Net asset value per share (after deducting borrowings at fair value)	(5.3)	22.2
Net asset value per share (after deducting borrowings at par value)	(5.2)	21.9
Share price	(7.4)	20.2
TOPIX (in sterling terms)	(0.5)	7.8

Year to 31 August	2019	2019	2018	2018
<b>Year's high and low</b>	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>
Net asset value per share (after deducting borrowings at fair value)	842.3p	628.8p	844.2p	658.2p
Net asset value per share (after deducting borrowings at par value)	845.0p	630.7p	847.5p	661.4p
Share price	866.0p	663.0p	882.0p	683.0p
Premium/(discount) (after deducting borrowings at fair value)	8.3%	(0.9%)	10.6%	0.4%
Premium/(discount) (after deducting borrowings at par value)	7.9%	(1.2%)	10.1%	0.0%

	31 August 2019	31 August 2018
<b>Net return per ordinary share</b>		
Revenue	5.18p	2.54p
Capital	(47.70p)	142.51p
<b>Total</b>	<b>(42.52p)</b>	<b>145.05p</b>

\* Source: Baillie Gifford/Refinitiv and relevant underlying index providers. See disclaimer on page 56.

† See Glossary of Terms and Alternative Performance Measures on pages 57 and 58.

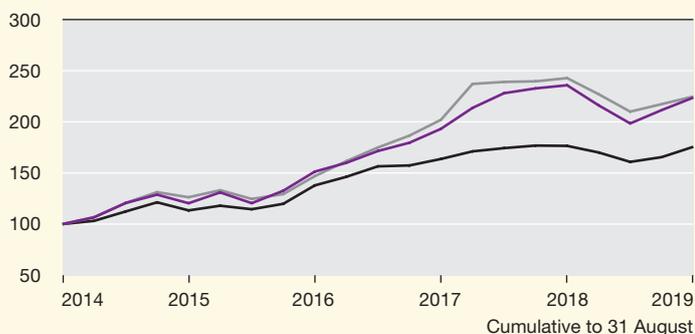
# Alternative performance measure, see Glossary of Terms and Alternative Performance Measures on pages 57 and 58.

## Five Year Summary

The following charts indicate how an investment in Baillie Gifford Japan has performed relative to its benchmark and its net asset value over the five year period to 31 August 2019.

### 5 Year Total Return Performance

(figures rebased to 100 at 31 August 2014)



Source: Baillie Gifford/Refinitiv.  
 — NAV total return (at fair)  
 — Share price total return  
 — Benchmark total return\*

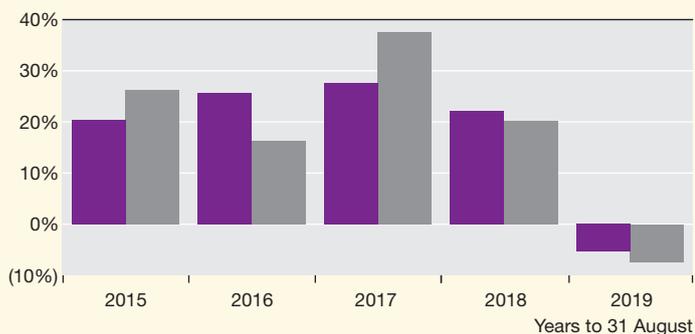
### Premium/(Discount) to Net Asset Value

(figures plotted on a monthly basis)



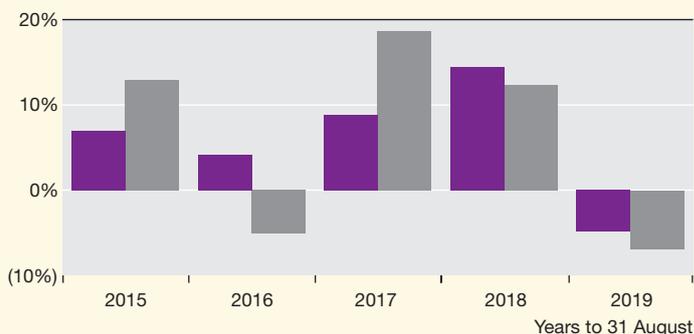
Source: Baillie Gifford/Refinitiv.  
 — Baillie Gifford Japan premium/(discount)  
 The premium/(discount) is the difference between Baillie Gifford Japan's quoted share price and its underlying net asset value (at fair).

### Annual Change in Net Asset Value Total Return and Share Price Total Return



Source: Baillie Gifford/Refinitiv.  
 ■ NAV total return (at fair)  
 ■ Share price total return

### Annual Change in Net Asset Value Total Return and Share Price Total Return relative to the Benchmark\*



Source: Baillie Gifford/Refinitiv.  
 ■ NAV total return (at fair)  
 ■ Share price total return

\* The benchmark is the TOPIX total return (in sterling terms). See disclaimer on page 56.  
 For a definition of terms see Glossary of Terms and Alternative Performance Measures on pages 57 and 58.

Past performance is not a guide to future performance.

## Ten Year Record

### Capital

At 31 August	Total assets £'000	Bank loans £'000	Shareholders' funds £'000	Net asset value per ordinary share (fair) * p	Net asset value per ordinary share (par) * p	Share price p	Premium/ (discount) † (fair) %	Premium/ (discount) † (par) %
2009	138,775	23,481	115,294	185.3	186.2	153.3	(17.3)	(17.7)
2010	143,641	27,508	116,133	186.7	187.5	153.8	(17.6)	(18.0)
2011	162,218	28,511	133,707	215.2	215.9	192.4	(10.6)	(10.9)
2012	163,131	28,544	134,587	216.9	217.3	197.0	(9.2)	(9.3)
2013	245,954	35,579	210,375	323.0	323.5	317.9	(1.6)	(1.7)
2014	290,447	41,733	248,714	353.3	358.7	352.3	(0.3)	(1.8)
2015	377,879	54,726	323,153	425.4	430.2	444.8	4.6	3.4
2016	500,291	75,294	424,997	534.6	539.8	517.5	(3.2)	(4.1)
2017	657,721	82,500	575,221	682.4	685.8	711.5	4.3	3.7
2018	870,590	114,486	756,104	834.0	835.8	855.0	2.5	2.3
<b>2019</b>	<b>859,746</b>	<b>127,641</b>	<b>732,105</b>	<b>789.3</b>	<b>792.1</b>	<b>791.0</b>	<b>0.2</b>	<b>(0.1)</b>

\* Net asset value per ordinary share has been calculated after deducting long term borrowings at either fair or par value. See note 18, page 47 and Glossary of Terms and Alternative Performance Measures on page 57.

† Premium/(discount) is the difference between the Company's quoted share price and its underlying net asset value (with borrowings at either par value or fair value) expressed as a percentage of net asset value. See Glossary of Terms and Alternative Performance Measures on page 57.

### Revenue

Year to 31 August	Gross revenue £'000	Available for ordinary shareholders £'000	Revenue earnings per ordinary share p	Dividend paid and proposed per ordinary share p	Ongoing charges # %
2009	2,422	532	0.86	–	1.09
2010	2,605	447	0.72	–	1.23
2011	2,664	238	0.38	–	1.27
2012	3,251	777	1.25	–	1.20
2013	3,177	141	0.22	–	1.13
2014	3,746	322	0.47	–	0.90
2015	4,316	199	0.28	–	0.90
2016	7,090	1,823	2.35	–	0.88
2017	8,480	2,235	2.80	–	0.78
2018	10,874	2,234	2.54	0.60p	0.73
<b>2019</b>	<b>13,498</b>	<b>4,755</b>	<b>5.18</b>	<b>3.50p</b>	<b>0.70</b>

### Gearing Ratios

Gearing ‡ %	Potential gearing ¶ %
15	20
18	24
18	21
19	21
16	17
15	17
14	17
17	18
13	14
11	15
<b>12</b>	<b>17</b>

# Total operating costs divided by average net asset value (with debt at fair value). See Glossary of Terms and Alternative Performance Measures on page 58. The 2008 figure excludes the impact of VAT on management fees recovered.

‡ Total borrowings less all cash and cash equivalents expressed as a percentage of shareholders' funds. See Glossary of Terms and Alternative Performance Measures on page 58.

¶ Total borrowings expressed as a percentage of shareholders' funds. See Glossary of Terms and Alternative Performance Measures on page 58.

### Cumulative Performance (taking 2009 as 100)

At 31 August	Net asset value per share (fair)	Share price	Benchmark §^
2009	100	100	100
2010	101	100	99
2011	116	126	101
2012	117	129	98
2013	174	207	124
2014	191	230	129
2015	230	290	146
2016	289	338	178
2017	368	464	211
2018	450	558	227
<b>2019</b>	<b>426</b>	<b>516</b>	<b>226</b>

#### Compound annual returns

5 year	17.4%	17.6%	9.6%
10 year	15.6%	17.8%	6.2%

§ The benchmark is the TOPIX total return (in sterling terms).

^ Source: Baillie Gifford/Refinitiv and relevant underlying index providers. See disclaimer on page 56.

Past performance is not a guide to future performance.

## Business Review

### Business Model

#### Business and Status

The Company is an investment company within the meaning of section 833 of the Companies Act 2006 and carries on business as an investment trust. Investment trusts are UK public listed companies and their shares are traded on the London Stock Exchange. They invest in a portfolio of assets in order to spread risk. The Company has a fixed share capital, although, subject to shareholder approval sought annually, it may purchase its own shares or issue shares. The price of the Company's shares is determined, like other listed shares, by supply and demand.

The Company has obtained approval as an investment trust from HM Revenue & Customs subject to the Company continuing to meet the eligibility conditions. The Directors are of the opinion that the Company has continued to conduct its affairs so as to enable it to comply with the ongoing requirements of section 1158 of the Corporation Tax Act 2010 and the Investment Trust (Approved Company) (Tax) Regulations 2011.

The Company is an Alternative Investment Fund (AIF) for the purposes of the EU Alternative Investment Fund Managers Directive.

#### Objective and Policy

The Baillie Gifford Japan Trust aims to achieve long term capital growth principally through investment in medium to smaller sized Japanese companies which are believed to have above average prospects for growth, although it invests in larger companies when considered appropriate.

The Company's holdings are generally listed in Japan although the portfolio can also include companies listed elsewhere whose business is predominantly in Japan as well as unlisted companies. From time to time, fixed interest holdings, or non equity investments, may be held.

The portfolio is constructed through the identification of individual companies which offer long term growth potential, typically over a three to five year horizon. The portfolio is actively managed and does not seek to track the benchmark; hence a degree of volatility against the index is inevitable.

In constructing the equity portfolio a spread of risk is achieved by diversifying the portfolio through investment in 40 to 70 holdings. Although sector concentration and the thematic characteristics of the portfolio are carefully monitored, there are no maximum limits to deviation from benchmark stock or sector weights except as imposed by banking covenants on borrowings.

On acquisition, no holding shall exceed 5% of the portfolio at the time of purchase and any holding that as a result of good performance exceeds 5% of the portfolio is subject to particular scrutiny. A holding greater than 5% will only be held where the Managers continue to be convinced of the merits of the investment case.

On acquisition, no more than 15% of the Company's gross assets will be invested in other UK listed investment companies.

The Company may use derivatives which will be principally, but not exclusively, for the purpose of efficient portfolio management (i.e. for the purpose of reducing, transferring or eliminating investment risk in its investments, including protection against currency risks).

The Company recognises the long term advantages of gearing and has a maximum equity gearing level of 30% of shareholders' funds.

Borrowings are invested in securities when it is considered that investment grounds merit the Company taking a geared position. Gearing levels, and the extent of equity gearing, are discussed by the Board and Managers at every Board meeting.

A detailed analysis of the Company's Investment Portfolio is set out on pages 14 to 18 and in the Managers' Report and Review of Investments.

### Performance

At each Board meeting, the Directors consider a number of performance measures to assess the Company's success in achieving its objectives.

#### Key Performance Indicators

The key performance indicators (KPIs) used to measure the progress and performance of the Company over time are established industry measures and are as follows:

- the movement in net asset value per ordinary share compared to the benchmark;
- the movement in the share price;
- the premium/discount of the share price to the net asset value per share; and
- the ongoing charges.

An explanation of these measures can be found in the Glossary of Terms and Alternative Measures on pages 57 and 58.

The one, five and ten year records for the KPIs can be found on pages 4 to 6.

In addition to the above, the Board considers peer group comparative performance.

### Borrowings

Total borrowings at 31 August 2019 were ¥16.5 billion and are detailed in notes 11 and 12 on page 44.

### Currency Hedging

It is extremely difficult to predict currency movements and currencies can appear cheap or expensive for long periods of time. The Board remains of the view that it will not engage in currency hedging.

## Principal Risks

As explained on pages 24 and 25 there is an ongoing process for identifying, evaluating and managing the risks faced by the Company on a regular basis. The Directors have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. There have been no significant changes to the principal risks during the year. A description of these risks and how they are being managed or mitigated is set out below:

**Financial Risk** – the Company's assets consist of listed securities 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. An explanation of those risks and how they are managed is contained in note 18 to the Financial Statements on pages 46 to 49. To mitigate this risk the Board considers at each meeting various portfolio metrics including individual stock performance, the composition and diversification of the portfolio by growth category, purchases and sales of investments, the holding period of each investment and the top and bottom contributors to performance. The Manager provides rationale for stock selection decisions. A strategy meeting is held annually.

**Investment Strategy Risk** – pursuing 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. To mitigate this risk, the Board regularly reviews and monitors: the Company's objective and investment policy and strategy; the investment portfolio and its performance; the level of premium/discount to Net Asset Value at which the shares trade; and movements in the share register.

**Discount Risk** – the premium/discount 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. The Board monitors the level of premium/discount at which the shares trade and the Company has authority to buy back its existing shares when deemed by the Board to be in the best interests of the Company and its shareholders.

**Regulatory Risk** – failure to comply with applicable legal and regulatory requirements such as the tax rules for investment companies, the UKLA 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. To mitigate this risk, Baillie Gifford's Business Risk, Internal Audit and Compliance Departments provide regular reports to the Audit Committee on Baillie Gifford's monitoring programmes. Major regulatory change could impose disproportionate compliance burdens on the Company. In such circumstances representation is made to ensure that the special circumstances of investment trusts are recognised. Shareholder documents and announcements, including the Company's published Interim and Annual Report and Financial Statements, are subject to stringent review processes and procedures are in place to ensure adherence to the Transparency Directive and the Market Abuse Directive with reference to inside information.

**Custody and Depositary Risk** – safe custody of the Company's assets may be compromised through control failures by the Depositary, including cyber security incidents. To mitigate this risk, the Audit Committee receives six monthly reports from the Depositary confirming safe custody of the Company's assets held by the Custodian. Cash and portfolio holdings are independently reconciled to the Custodian's records by the Managers. The Custodian's audited internal controls reports are reviewed by Baillie Gifford's Business Risk Department and a summary of the key points is reported to the Audit Committee and any concerns investigated. In addition, the existence of assets is subject to annual external audit.

**Smaller 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. To mitigate this risk, the Board reviews the investment portfolio at each meeting and discusses the investment case and portfolio weightings with the Managers. A spread of risk is achieved by holding a minimum of 40 stocks.

**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. To mitigate this risk, Baillie Gifford has a comprehensive business continuity plan which facilitates continued operation of the business in the event of a service disruption or major disaster. The Audit Committee reviews Baillie Gifford's Report on Internal Controls and the reports by other key third party providers are reviewed by Baillie Gifford on behalf of the Board.

**Leverage Risk** – the Company may borrow money for investment purposes (sometimes known as 'gearing' or 'leverage'). If the investments fall in value, any borrowings will magnify the extent of this loss. If borrowing facilities are not renewed, the Company may have to sell investments to repay borrowings. To mitigate this risk, all borrowings require the prior approval of the Board and leverage levels are discussed by the Board and Managers at every meeting. Covenant levels are monitored regularly. The Company's investments are in listed securities that are readily realisable. Further information on leverage can be found on page 56 and in the Glossary of Terms and Alternative Measures on page 58.

**Political Risk** – political change in areas in which the Company invests or may invest may have practical consequences for the Company. To mitigate this risk developments are closely monitored and considered by the Board. The Board continues to monitor developments as they occur regarding the UK Government's intention that the UK should leave the European Union and to assess the potential consequences for the Company's future activities. Whilst there remains considerable uncertainty at present, the Board believes that the Company's portfolio, which comprises companies which are incorporated or domiciled in Japan, positions the Company to be suitably insulated from Brexit-related risk.

## Viability Statement

Notwithstanding that the continuation vote of the Company is subject to the approval of shareholders annually, the Directors have, in accordance with provision G2.2 of the 2016 UK Corporate Governance Code, assessed the prospects of the Company over a period of five years from the Balance Sheet date. The Directors continue to believe this period to be appropriate as it reflects the Company's longer term investment strategy and to be a period during which, in the absence of any adverse change to the regulatory environment and to the tax treatment afforded to UK investment trusts, they do not expect there to be any significant change to the current principal risks facing the Company nor to the effectiveness of the controls employed to mitigate those risks. Furthermore, the Directors do not reasonably envisage any change in strategy or any events which would prevent the Company from operating over a period of five years.

In considering the viability of the Company, the Directors have conducted a robust assessment of each of the principal risks and uncertainties detailed on page 8 and in particular the impact of market risk where a significant fall in Japanese equity markets would adversely impact the value of the investment portfolio. The Company's investments are listed and readily realisable and can be sold to meet its liabilities as they fall due, the main liability currently being the bank borrowings. In addition, all of the key operations required by the Company are outsourced to third party service providers and it is reasonably considered that alternative providers could be engaged at relatively short notice.

The Board has considered the Company's leverage and liquidity in the context of its borrowings. Specific leverage and liquidity stress testing was conducted during the year. The leverage stress testing identified the impact of leverage in scenarios where gross assets fall by 25% and 50%, reflecting a range of market conditions that may adversely impact the portfolio. The liquidity stress testing identified the reduction in value of assets that can be liquidated within one month that would result in the value of those assets falling below the value of the borrowings. The stress testing did not indicate any matters of concern.

Based on the Company's processes for monitoring revenue projections, share price premium/discount, the Managers' compliance with the investment objective, asset allocation, the portfolio risk profile, leverage, counterparty exposure, liquidity risk and financial controls, the Directors have concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five years.

**Brexit** – as a UK listed company, the Board and Managers have considered the implications of Brexit. Around half the Company's investments are domestically focused within Japan and the remaining holdings have minimal exposure to the UK. As the Company is priced in sterling, large movements in the yen/sterling exchange rate, which may arise as a result from Brexit, could affect the Company's NAV. The Board is therefore not concerned about the impact of Brexit on the portfolio.

## Employees, Human Rights and Community Issues

The Board recognises the requirement to provide information about employees, human rights and community issues. As the Company has no employees, all its Directors are non-executive and all its functions are outsourced, there are no disclosures to be made in respect of employees, human rights and community issues. Further information on the Company's approach to environmental, social and governance (ESG) matters is provided on page 25.

## Gender Representation

At 31 August 2019, the Board comprises five Directors, four male and one female. Mr Bannerman is to stand down after the conclusion of the forthcoming Annual General Meeting. Ms Sharon Brown was appointed to the Board on 3 October 2019. The Company has no employees. The Board's policy on diversity is set out on page 24.

## Environmental, Social and Governance Policy

Details of the Company's policy on socially responsible investment can be found under Corporate Governance and Stewardship on page 25.

The Company considers that it does not fall within the scope of the Modern Slavery Act 2015 and it is not, therefore, obliged to make a slavery and human trafficking statement. In any event, the Company considers its supply chains to be of low risk as its suppliers are typically professional advisers. A statement by the Managers under the Act has been published on the Managers' website at [www.bailliegifford.com](http://www.bailliegifford.com).

## Future Developments of the Company

The outlook for the Company for the next 12 months is set out in the Chairman's Statement on page 3 and the Managers' Report on page 11.

## Managers' Report

### Philosophy

We manage the Trust with three central philosophies. First, we believe in actual long-term growth investing. Second, Baillie Gifford is a partnership with a sole focus on asset management. Finally, we believe that the investment trust structure is an excellent vehicle for compounding wealth. Each of these points was discussed in more detail in the 2018 annual report.

### Performance

Over the past year the NAV per share with borrowings deducted at fair value has decreased by 5.3% to 789.3p lagging the fall in the Company's benchmark of 0.5%. The journey was volatile with the NAV falling by 16.0% to 700.2p during the first half of the company's year, before rising 12.7% during the second half to 789.3p at the year-end. As we noted last year, following a year when performance was significantly ahead of the benchmark, Baillie Gifford believes that performance should be measured over longer periods. Over five years the NAV has outpaced the benchmark by 7.8% p.a. and over ten years by 9.4% p.a., demonstrating the benefit to shareholders of an active, long-term, growth-orientated approach to investing. Volatility and short-term setbacks are inevitable when pursuing this approach but this, in our view, should not distract from the significant value that can be created over the long-term.

The Company's total assets reduced slightly from £870.6 million to £859.7 million. The reduction was a combination of a negative return from the portfolio in Yen terms, exacerbated by gearing, which was partly offset by weakness in Sterling. As was the case last year, over five years each of the top ten contributors individually delivered more performance than the worst subtracted. Therefore, we continue to believe that it is important for us to focus on the upside potential of individual stocks and stay the course when we have found an idea where we have strong conviction.

The largest contributor to performance this year was Rakuten, mainly an online retail and finance company. It has made significant progress in its plans to launch a mobile phone network in Japan while other parts of the business continue to perform. Aside from this we had helpful contributions from Advantest, the chip-testing company, where demand and profits surged during the year; and Pan Pacific Holdings, the retailer formerly named Don Quijote, who made a significant acquisition to grow the size of the business.

On the other hand, the two largest negative contributors to performance this year were Outsourcing and ZOZO (formerly named Start Today). Both remain in the top ten positive contributors to performance over the past five years, so this year appears to be a reversal of the previous positive trend.

Outsourcing is a staffing business run by the entrepreneur Mr Doi, who owns a little over 12% of the company. It has grown its sales 7-fold and operating profits 13-fold over the past 5 years. Despite continuing to grow, the shares were weak due to the perception that tougher macro conditions might impact the business. We remain very happy to continue to back the founder and increased the company's shareholding this year.

ZOZO is an online fashion retailer run by the entrepreneur Mr Maezawa, who owns 36% of the company. It has experienced significant success over the past several years but recent attempts to innovate have been less successful. It also gave us cause for concern when the Board decided to approve an options package to Mr Maezawa that seemed excessive relative to the performance hurdles needed to achieve it. We reduced the holding during the year. Subsequently there has been a bid for majority control of the company by the SoftBank controlled Yahoo Japan so we may end up continuing to own the business indirectly.

### Portfolio Positioning

As in last year's report, the portfolio is grouped into Secular Growth, Growth Stalwarts, Special Situations and Cyclical Growth reflecting our process. Secular Growth stocks remain the core of the portfolio, comprising a little over 55% at the year end. These businesses are those that we believe have the highest potential growth but where there is also the greatest uncertainty as they are often operating in rapidly evolving markets. Most of the internet businesses, factory automation businesses and emerging healthcare stocks sit within this grouping. Around 29% of the portfolio is in internet related businesses and a further 16% in automation related businesses. Both are areas that we believe will show significant growth for a long period of time and where we can find exceptional quality businesses.

SoftBank, the strategic holding company, remains the single largest stock position. There are three parts to the investment case that mutually strengthen each other. First, excellent underlying assets. These include a large stake in Alibaba (China's largest e-commerce company) and many exciting investments in the Vision Fund including ARM (which designs chips for mobile phones) and significant stakes in ride-sharing businesses. Given the scale of the company's investments there will always be headlines about some individual holding having a problem but taken in the round we are in no doubt that SoftBank has a high-quality portfolio. Second, if we compare the total value of the assets held by SoftBank with the market capitalisation of the company a large discount exists, in our opinion more than 40%. Indeed, the stake in Alibaba alone is roughly equivalent to the market capitalisation of SoftBank. Third, we think founder-entrepreneur Mr Son is an extremely value-added manager and will continue to be so. Over a nearly forty-year period he has achieved a hugely successful investment record with the result that his holding in the company is worth \$19 billion alone.

Smartphone orientated computer games companies were a fertile area of opportunity during the year. We bought two new holdings, Mixi and Gree, and made significant additions to existing holding Colopl. Each of these businesses benefits from having the founder as a major shareholder and a good record of innovation in the past. Yet each has found the last few years challenging as they have not managed to generate hit games or new businesses to rival past successes. This has resulted in the shares seemingly taking little account of the future growth prospects for the businesses. Over the last year we have been regularly able to buy

shares at such anomalous prices that fully two-thirds of the market capitalisation of the business has been covered by net cash on the balance sheet. Successful innovation and profit growth at any of these companies has the potential to drive a much more positive and appropriate perception in our view.

In total we bought 6 new holdings and sold 7. Turnover was 11.5% during the year. Given that we started the year with 70 holdings, by name we have retained 90% of last years' portfolio. This is entirely deliberate. As actual investors our starting point is that most of the portfolio value-added will come from the long-term holding of exceptional businesses. Charlie Munger, vice chairman of the well-known Berkshire Hathaway, noted in a lecture 'when you analyse what happened, the big money's been made in the high quality businesses. And most of the other people who've made a lot of money have done so in high quality businesses.' It also means that you as an investor in the shares of the Japan Trust can have a degree of conviction in the type of portfolio that you are buying into. It is highly unlikely that next year's portfolio is going to be radically different to this one.

### Outlook

The outlook for the global and Japanese economies remains, as ever, uncertain. However, we believe that a selected portfolio of growing businesses retains the capability of growing shareholders wealth over time. When we consider the quality of the companies in your portfolio we look to the future with optimism and confidence.

Baillie Gifford  
8 October 2019

## Review of Investments

### SoftBank

#### 6.0% of total assets

SoftBank is a diversified company run by a dynamic entrepreneur, Masayoshi Son. The group now encompasses mobile telecoms businesses in Japan and the US, a significant holding in Alibaba the fast growing Chinese e-commerce company, a stake in Yahoo Japan a diverse internet advertising company, Arm Holdings the UK technology company acquired last year and the Vision Fund, where SoftBank holds 30% of a huge venture fund which it runs focused on worldwide technology investment. The underlying businesses continue to grow, some very rapidly; we believe Mr Son to be an excellent allocator of capital; and the discount that the shares trade at to the value of the underlying holdings remains significant.

### Rakuten

#### 3.7% of total assets

Rakuten is an internet conglomerate with particular strengths in e-commerce and online financial services. It started with a successful online shopping mall called Ichiba and from that base it has developed an ecosystem, particularly in financial businesses. Successes include now running Japan's largest credit card business and serious online banking and brokerage operations. The company has decided to become a Mobile Network Operator (MNO) in Japan which will necessitate significant spending but where our research suggests that there is significant potential for success. The dynamic founder, Hiroshi Mikitani, continues to own well over a third of the shares outstanding closely aligning the interests of management and shareholders.



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### SBI

#### 2.8% of total assets

SBI is a leading internet focused financial services company in Japan. Its principal operations are online brokerage, internet banking, online life insurance and venture capital. In the company's own words, the core potential is 'utilising opportunities provided by the powerful price-destruction forces of the Internet and developing financial services that further enhance benefits to customers'. Whilst the business has various complexities the founder, Mr Kitao, has succeeded in building a company with a very good reputation among its customers. Furthermore he has been alert to the opportunities presented by blockchain technology and made significant investments into the area that in time may be of significant value.

### M3

#### 2.6% of total assets

M3 provides online marketing support for pharmaceutical companies. It runs a medical website with an interactive portal where doctors can log in, source information and pick up targeted messages about relevant new drug developments. This online marketing is much cheaper for the pharma companies than face-to-face contact, and also allows for more efficient time-management by doctors. Growth has been very rapid in Japan, where M3 is now the dominant platform. Although still a relatively small part of group revenues, M3 has also built promising positions in the US and selected other markets with potential for these to grow substantially. The company also supports and invests in early stage medical technologies such as genome diagnostics, cancer tests and A.I. medical technologies.

### Kubota

#### 2.5% of total assets

Kubota is a producer of agricultural equipment and mini-excavators. We believe agricultural mechanisation is a very well established and long duration growth opportunity. Due to its Japanese heritage Kubota is especially well placed to benefit from long-term growth in demand for agricultural equipment in Asian markets, such as rice planters, combine harvesters and small tractors. It should also benefit from increased levels of infrastructure spending in North America giving a further growth opportunity.

## Sony

### 2.4% of total assets

Sony is a major owner of game, music and film content. The PlayStation has established itself as the leading console and platform for networked games and is a front-runner in virtual reality (VR) gaming. Through Sony Music and EMI, the company is the world's largest music publisher and, through Sony Pictures, Columbia and TriStar, a major film producer. Growing demand from different and competing platforms for Sony's film and music content is increasing potential revenue streams and the underlying value of these businesses. The company has made considerable progress in restructuring its consumer electronics business and is investing in its areas of strength, notably content and image sensors, where it enjoys a dominant global position. We also believe that management, particularly CEO Kenichiro Yoshida (who previously oversaw the company's restructuring as CFO) continue to provide effective leadership.

## GMO Internet

### 2.4% of total assets

GMO Internet is one of Japan's leading internet companies, with a particular emphasis on internet infrastructure. It is the number one provider of domain name registrations and hosting services, and has a strong position in hosting e-commerce websites and processing transactions. It also provides a variety of services, including security, search engine optimisation and online brokerage. Founder Masatoshi Kumagai owns over 40% of the shares outstanding closely aligning the interests of management and shareholders.

## CyberAgent

### 2.4% of total assets

CyberAgent is an internet holding company with exposure to internet advertising, online gaming/social media and internet start-up investments. The company is benefiting from a shift in advertising budgets to the internet, and is currently experiencing rapid growth in its mobile advertising business. The founder-President Mr Fujita has resolutely pursued domestic growth opportunities, including making significant investment in a new online streaming video service. We remain upbeat on the company's growth prospects in its core online advertising business and are encouraged by management's long-term decision making.

## FANUC

### 2.3% of total assets

FANUC manufactures factory automation systems and robots. It is particularly strong in CNCs (computerised numerical controls) which are specialist computers that are attached to machine tools and synchronise the movements and actions of the machine. We expect the global automation market to continue to grow as companies focus on efficiency and productivity to improve their competitiveness. We believe that FANUC's high market share and reputation in automation and robotics will allow it to continue generating attractive returns on capital and grow profitably.



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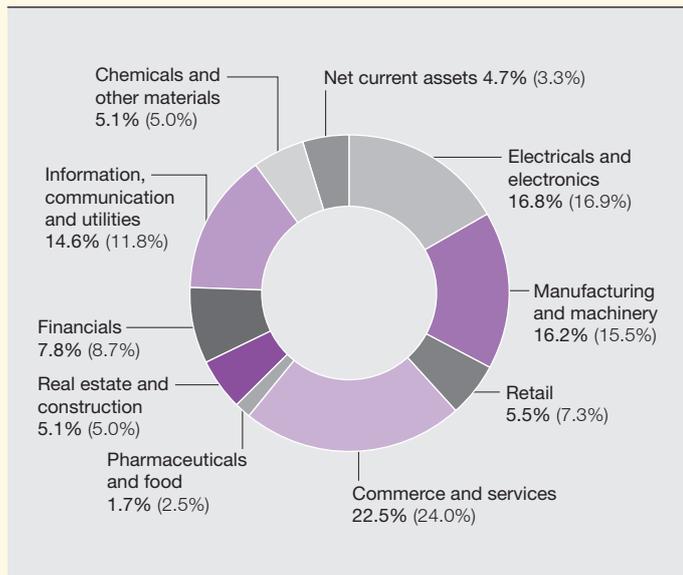
## Yaskawa Electric

### 2.2% of total assets

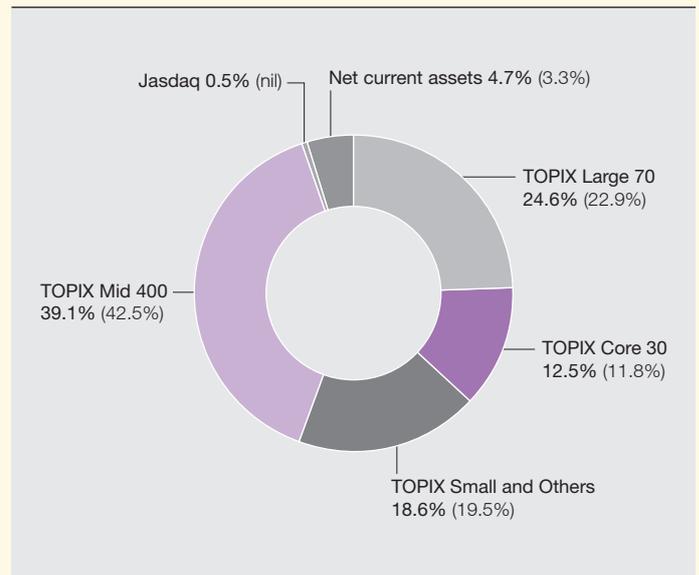
Yaskawa manufactures equipment for factory automation and has a leading global market share in servomotors, inverters and industrial robots. Each of these products can help reduce power consumption and labour costs, and also improve quality and productivity. Robots are currently only really widely used in the car manufacturing sector and in the most developed economies, but new applications and new geographies give Yaskawa significant room for expansion. We think the business is therefore well placed in an industry with strong long-term demand.

## Distribution of Total Assets

### Industry 2019 (2018)



### Listings 2019 (2018)



## Stock Level Attribution

### Top Ten Relative Stock Contributors

Year to 31 August 2019

Name	Portfolio (average weight) %	Index (average weight) %	Contribution %
Rakuten	4.0	0.2	1.1
Advantest	1.2	0.1	0.8
Pan Pacific International	2.1	0.2	0.8
Invincible Investment	1.2	0.0	0.5
Itochu	2.3	0.6	0.4
SoftBank	7.0	1.8	0.4
Infomart	1.2	0.0	0.4
SMC	2.0	0.5	0.3
GMO Internet	2.4	0.0	0.3
Peptidream	0.9	0.1	0.3

### Bottom Ten Relative Stock Contributors

Year to 31 August 2019

Name	Portfolio (average weight) %	Index (average weight) %	Contribution %
Outsourcing	2.2	0.0	(1.5)
ZOZO	2.1	0.1	(1.2)
SBI	3.8	0.1	(0.8)
iStyle	1.2	0.0	(0.7)
Toyota Motor	0.0	3.3	(0.5)
Systemex	2.5	0.2	(0.5)
CyberAgent	2.6	0.1	(0.5)
Daiichi Sankyo	0.0	0.6	(0.4)
Inpex	2.8	0.3	(0.4)
Topcon	1.4	0.0	(0.4)

### Top Ten Relative Stock Contributors

5 Years to 31 August 2019

Name	Portfolio (average weight) %	Index (average weight) %	Contribution %
Yaskawa Electric	2.6	0.1	2.5
CyberAgent	2.5	0.1	2.0
Outsourcing	2.0	0.0	1.9
Pan Pacific International	2.3	0.1	1.8
Misumi	2.8	0.1	1.8
Katitas	0.4	0.0	1.6
ZOZO	2.3	0.1	1.6
M3	2.6	0.1	1.6
Pigeon	1.8	0.1	1.5
Shimadzu	2.0	0.1	1.5

### Bottom Ten Relative Stock Contributors

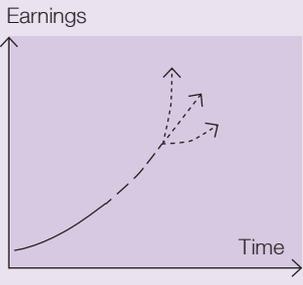
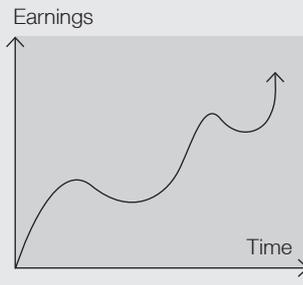
5 Years to 31 August 2019

Name	Portfolio (average weight) %	Index (average weight) %	Contribution %
Mazda Motor	1.5	0.2	(1.3)
Inpex	2.1	0.3	(1.2)
Modex	0.5	0.0	(0.8)
H.I.S.	2.1	0.0	(0.8)
Nintendo	0.0	0.8	(0.7)
Tokyo Tatemono	1.8	0.1	(0.7)
Daiichi Sankyo	0.0	0.4	(0.7)
Sumitomo Mitsui Trust	2.0	0.4	(0.6)
Takara Leben	0.7	0.0	(0.6)
Asics	1.3	0.1	(0.6)

Source: StatPro and relevant underlying index providers. Baillie Gifford Japan Trust relative to TOPIX total return, in sterling terms. See disclaimer on page 56.

## Equity Portfolio by Growth Category

As at 31 August 2019

Secular Growth*		Growth Stalwarts*		Special Situations*		Cyclical Growth*	
							
% of total assets		% of total assets		% of total assets		% of total assets	
Rakuten	3.7	Nitori	1.5	SoftBank	6.0	Itochu	2.1
SBI	2.8	Zenkoku Hosho	1.4	Sony	2.4	Disco	1.7
M3	2.6	Park24	1.0	Colopl	1.7	Sumitomo Metal Mining	1.6
Kubota	2.5	Makita	0.7	Tokyo Tatemono	1.5	Sumitomo Mitsui Trust	1.6
GMO Internet	2.4	Mitsubishi UFJ		Mixi	1.5	Mitsubishi Electric	1.5
CyberAgent	2.4	Lease & Finance	0.7	Gree	0.8	Nifco	1.3
FANUC	2.3	Fukuoka Financial	0.6	Rohm	0.8	Murata Manufacturing	1.2
Yaskawa Electric	2.2	Asics	0.6	JAFCO	0.8	DMG Mori	1.2
Sysmex	2.2	Sawai Pharmaceutical	0.5			Invincible Investment	1.2
Misumi	2.2	Secom	0.5			Advantest	1.0
Inpex	2.1					Iida	0.9
Nidec	2.0					Mazda Motor	0.9
SMC	1.9					Katitas	0.6
Shimadzu	1.7						
ZOZO	1.7						
Sato	1.7						
Recruit Holdings	1.5						
Outsourcing	1.5						
H.I.S.	1.3						
MonotaRO	1.2						
Infomart	1.2						
Topcon	1.1						
Pan Pacific International	1.1						
Toyota Tsusho	1.1						
Subaru	1.0						
Digital Garage	1.0						
Peptidream	0.9						
iStyle	0.9						
Broadleaf	0.8						
Lifull	0.8						
Keyence	0.7						
Mercari	0.5						
Nippon Ceramic	0.5						
Yume No Machi	0.5						
Shimano	0.4						
Noritsu Koki	0.4						
Cyberdyne	0.3						
Rizap	0.2						
Healios K.K.	0.2						
<b>Total</b>	<b>55.5</b>	<b>Total</b>	<b>7.5</b>	<b>Total</b>	<b>15.5</b>	<b>Total</b>	<b>16.8</b>

\* A definition of growth categories can be found in the Managers' Report on page 10.

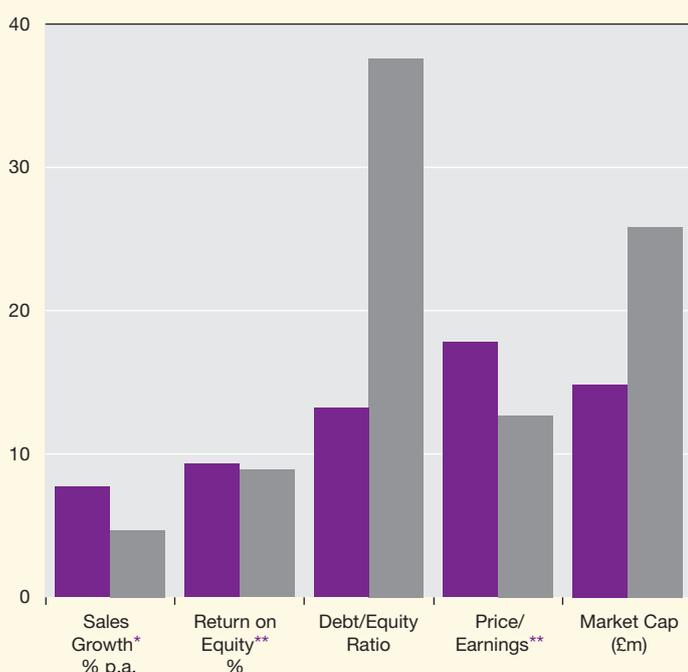
## Holding Period

As at 31 August 2019

>10 years	% of total assets	5–10 years	% of total assets	2–5 years	% of total assets	<2 years	% of total assets
Rakuten	3.7	SoftBank	6.0	FANUC	2.3	Sato	1.7
SBI	2.8	M3	2.6	Nidec	2.0	Mixi	1.5
Kubota	2.5	Sony	2.4	Colopl	1.7	Zenkoku Hosho	1.4
Sysmex	2.2	GMO Internet	2.4	Recruit Holdings	1.5	DMG Mori	1.2
Misumi	2.2	CyberAgent	2.4	Outsourcing	1.5	Gree	0.8
Inpex	2.1	Yaskawa Electric	2.2	MonotaRO	1.2	Rohm	0.8
Itochu	2.1	ZOZO	1.7	Murata	1.2	JAFCO	0.8
SMC	1.9	Disco	1.7	Infomart	1.2	Makita	0.7
Shimadzu	1.7	Sumitomo Metal		Invincible Investment	1.2	Katitas	0.6
Mitsubishi Electric	1.5	Mining	1.6	Topcon	1.1	Mercari	0.5
Tokyo Tatemono	1.5	Sumitomo Mitsui		Iida	0.9	Yume No Machi	0.5
Nitori	1.5	Trust	1.6	Peptidream	0.9	Shimano	0.4
Nifco	1.3	Toyota Tsusho	1.1	iStyle	0.9	Noritsu Koki	0.4
H.I.S.	1.3	Subaru	1.0	Keyence	0.7	Rizap	0.2
Pan Pacific		Digital Garage	1.0	Secom	0.5		
International	1.1	Park24	1.0	Nippon Ceramic	0.5	<b>Total</b>	<b>11.5</b>
Mitsubishi UFJ		Advantest	1.0	Cyberdyne	0.3		
Lease & Finance	0.7	Mazda Motor	0.9	Healios K.K.	0.2		
Fukuoka Financial	0.6	Broadleaf	0.8				
Asics	0.6	Lifull	0.8				
<b>Total</b>	<b>31.3</b>	Sawai Pharmaceutical	0.5	<b>Total</b>	<b>19.8</b>		
		<b>Total</b>	<b>32.7</b>				

Stocks bought within the past year.

## Portfolio Characteristics



- **Sales Growth:** Higher than average growth in sales
- **Quality:** Higher than average return on equity, stronger balance sheets
- **Value:** Small premium in terms of price earnings ratio
- **Size:** Mid to small cap exposure

Source: UBS, sterling, as at 31 August 2019.

\*Historic: Trailing 3 years sales growth.

\*\*12 month forward estimate.

Japan Trust  
TOPIX

## List of Investments at 31 August 2019

Name	Business	Value £'000	% of total assets	Absolute † performance %	Relative † performance %
SoftBank	Telecom operator and technology investor	51,909	6.0	4.8	5.4
Rakuten	Internet retail and financial services	31,432	3.7	31.9	32.7
SBI	Online financial services	23,926	2.8	(19.9)	(19.5)
M3	Online medical services	22,154	2.6	3.1	3.6
Kubota	Agricultural machinery	21,215	2.5	(0.2)	0.3
Sony	Consumer electronics, films and finance	20,659	2.4	6.8	7.4
GMO Internet	Internet conglomerate	20,614	2.4	9.5	10.1
CyberAgent	Japanese internet advertising and content	20,587	2.4	(15.1)	(14.7)
FANUC	Robotics manufacturer	19,616	2.3	(1.2)	(0.6)
Yaskawa Electric	Specialist factory automation	19,230	2.2	8.2	8.8
Sysmex	Medical testing equipment	19,191	2.2	(20.9)	(20.5)
Misumi	Online distributor of precision machinery parts	18,849	2.2	(5.5)	(5.0)
Inpex	Oil and gas producer	18,463	2.1	(14.0)	(13.5)
Itochu	General trading firm	18,437	2.1	26.2	26.9
Nidec	Specialist motors	17,170	2.0	(3.5)	(2.9)
SMC	Producer of factory automation equipment	16,085	1.9	22.2	22.9
Shimadzu	Precision tools and equipment maker	14,920	1.7	(9.9)	(9.4)
ZOZO	Internet fashion retailer	14,889	1.7	(37.7)	(37.4)
Sato	Barcode and RFID technology	14,728	1.7	(16.2)	(15.7)
Colopl	Smartphone gaming and virtual reality (VR)	14,455	1.7	7.6	8.2
Disco	Specialist cutting for semiconductors	14,318	1.7	10.1	10.7
Sumitomo Metal Mining	Smelting and copper, nickel and gold mining	14,045	1.6	(5.5)	(5.0)
Sumitomo Mitsui Trust	Japanese trust bank and investment manager	13,827	1.6	(10.5)	(10.0)
Mitsubishi Electric	Develops, manufactures and markets electronic equipment	13,315	1.5	(2.1)	(1.6)
Recruit Holdings	Property, lifestyle and HR media	13,228	1.5	6.8	7.4
Outsourcing	Employment placement services	12,954	1.5	(47.3)	(47.0)
Tokyo Tatemono	Property leasing and development	12,695	1.5	16.7	17.4
Nitori	Furniture retail chain	12,649	1.5	1.9	2.5
Mixi	Mobile gaming	12,507	1.5	15.9 *	3.1 *
Zenkoku Hosho	Speciality finance	11,888	1.4	2.3	2.9
Nifco	Value-added plastic car parts	11,516	1.3	(9.0)	(8.5)
H.I.S.	Discount travel agency and theme parks	11,350	1.3	(20.1)	(19.7)
MonotaRO	Online business supplies	10,442	1.2	(7.3)	(6.8)
Murata Manufacturing	Manufactures and sells ceramic applied electronic components	10,027	1.2	(21.1)	(20.7)
DMG Mori	Machine tool manufacturer	9,956	1.2	11.1 *	5.5 *
Infomart	Internet platform for restaurant supplies	9,935	1.2	33.4	34.2
Invincible Investment	Real estate investment trust	9,910	1.2	55.4	56.2
Topcon	GPS systems	9,442	1.1	(28.0)	(27.6)
Pan Pacific International	Discount store chain	9,298	1.1	38.0	38.7
Toyota Tsusho	Markets automobiles and other products, Africa focus	9,138	1.1	(0.7)	(0.2)
Subaru	Niche car brand	8,961	1.0	0.6	1.2
Digital Garage	Internet business investor	8,604	1.0	2.6	3.2
Park24	Parking, car hire and sharing	8,288	1.0	(23.8)	(23.4)
Advantest	Semiconductor testing services	8,209	1.0	87.3	88.3
Iida	Japanese house builder	8,097	0.9	(7.5)	(7.0)
Mazda Motor	Car manufacturer	7,997	0.9	(21.0)	(20.6)
Peptidream	Drug discovery and development platform	7,786	0.9	43.1	43.8
iStyle	Beauty product review website	7,729	0.9	(46.0)	(45.7)

Name	Business	Value £'000	% of total assets	Absolute † performance %	Relative † performance %
Gree	Mobile gaming	7,179	0.8	15.1 *	7.5 *
Broadleaf	Online platform for buying car parts	7,140	0.8	(12.6)	(12.1)
Lifull	Provides online property information	6,878	0.8	7.8	8.4
Rohm	Electronic component manufacturer	6,767	0.8	16.0 *	11.5 *
JAFCO	Forms venture capital groups	6,668	0.8	3.0	3.6
Makita	Manufactures power tools	6,102	0.7	(4.1)*	(7.2)*
Mitsubishi UFJ Lease & Finance	Leasing services	5,762	0.7	6.2	6.8
Keyence	Manufacturer of sensors	5,742	0.7	11.8	12.4
Fukuoka Financial	Regional bank	5,374	0.6	(32.6)	(32.3)
Katitas	Real estate services	5,248	0.6	28.6	29.3
Asics	Sports shoes and clothing	5,087	0.6	(6.3)	(5.8)
Sawai Pharmaceutical	Generic pharmaceuticals	4,712	0.5	8.2	8.8
Secom	Security services	4,530	0.5	12.3	12.9
Mercari	Software development services	4,181	0.5	(21.0)	(20.6)
Nippon Ceramic	Electronic component manufacturer	4,094	0.5	1.6	2.1
Yume No Machi	Online meal delivery service	3,946	0.5	16.0 *	9.6 *
Shimano	Cycling component manufacturer	3,886	0.4	0.2	0.8
Noritsu Koki	Holding company with interests in biotech and agricultural products	3,551	0.4	(30.9)	(30.5)
Cyberdyne	Medical exo-skeletons	2,690	0.3	(18.2)	(17.8)
Rizap	Low calories food supplier and fitness gym operator	1,802	0.2	(61.4)	(61.2)
Healios K.K.	Regenerative medicine	1,667	0.2	(20.9)	(20.5)
<b>Total Investments</b>		<b>819,646</b>	<b>95.3</b>		
<b>Net Current Assets (excluding Bank Loans)</b>		<b>40,100</b>	<b>4.7</b>		
<b>Total Assets</b>		<b>859,746</b>	<b>100.0</b>		
<b>Bank Loans</b>		<b>(127,641)</b>	<b>(14.8)</b>		
<b>Shareholders' Funds</b>		<b>732,105</b>	<b>85.2</b>		

† Absolute and relative performance has been calculated on a total return basis over the period 1 September 2018 to 31 August 2019. For investments held for part of the year, the return is for the period they were held. Absolute performance is in sterling terms; relative performance is against TOPIX total return (in sterling terms).

\* Figures relate to part period returns.

Source: Baillie Gifford/StatPro and relevant underlying index providers. See disclaimer on page 56.

Past performance is not a guide to future performance.

The Strategic Report which includes pages 2 to 18 was approved by the Board of Directors and signed on its behalf on 8 October 2019.

Nick AC Bannerman  
Chairman

## Directors and Management

Members of the Board come from a broad variety of backgrounds. The Board can draw on a very extensive pool of knowledge and experience.

### Directors

#### Nick Bannerman

Nick Bannerman was appointed a Director in 2003 and became Chairman in 2014. He is managing director (Knitwear) of Johnstons of Elgin, Scotland's largest textile company. Established in 1797, Johnstons is a fully vertical operation specialising in cashmere, with sales offices worldwide, including Tokyo. He is a Director of BMO Global Smaller Companies PLC. He is a Chartered Accountant.

#### Keith Falconer

Keith Falconer was appointed a Director in 2014 and became Chairman of the Audit Committee in November 2014. He was with Martin Currie Investment Management Ltd from 1979 until his retirement in 2003 and between 1982 and 1987, he headed up the Japanese Equity team. He is Chairman of Impax Asset Management Group plc and Adelphi Distillery Ltd. He qualified as a Chartered Accountant.

#### David Kidd

David Kidd was appointed a Director in 2015. He has over 25 years investment experience in the City, mainly in the role of chief investment officer. For the past ten years he has been a director of The Law Debenture Pension Trust Corporation PLC where he is an independent professional trustee. He is also a director of The Golden Charter Trust and Mid Wynd International Investment Trust PLC.

#### Martin Paling

Martin Paling was appointed a Director in 2008 and is the Senior Independent Director. He was an investment director of Bentley Capital (Europe) Ltd between 1996 and 2008. From 1993 to 1996 he was deputy chief investment officer of Baring Asset Management (Asia) Ltd in Hong Kong. Prior to that he worked for James Capel & Co, where he was chief international investment strategist and James Capel (Far East) Ltd in Hong Kong where he directed institutional sales. Previously, he was a partner and head of Singapore/Malaysia sales at Montagu, Loeb, Stanley & Co.

#### Joanna Pitman

Joanna Pitman was appointed a Director in 2018. She read Japanese Studies at Cambridge University and speaks Japanese. She was Tokyo Bureau Chief of The Times from 1989 to 1994 and for the past nine years she has worked as a corporate research analyst focused on Japan. She is vice chair of the Great Britain Sasakawa Foundation, Advisor to the UK Japan Young Science Workshops, a director of the John Kobal Foundation and UK Chair of SAIDIA.

All Directors are members of the Nomination Committee and with the exception of Mr NAC Bannerman, all are members of the Audit Committee.

### Managers and Secretaries

The Company has appointed Baillie Gifford & Co Limited, a wholly owned subsidiary of Baillie Gifford & Co, as its Alternative Investment Fund Manager ('AIFM') and Company Secretary. Baillie Gifford & Co Limited has delegated investment management services to Baillie Gifford & Co. Baillie Gifford & Co is an investment management firm formed in 1927 out of the legal firm Baillie Gifford, WS, which had been involved in investment management since 1908.

Baillie Gifford is one of the largest investment trust managers in the UK and currently manages nine investment trusts. Baillie Gifford also manages a listed investment company, unit trusts and Open Ended Investment Companies, together with investment portfolios on behalf of pension funds, charities and other institutional clients, both in the UK and overseas. Funds under the management or advice of Baillie Gifford total around £202 billion at 7 October 2019. Based in Edinburgh, it is one of the leading privately owned investment management firms in the UK, with 43 partners and a staff of around 1,250.

The manager of Baillie Gifford Japan is Matthew Brett. Matthew joined Baillie Gifford in 2003 and is an investment manager of the Japanese All Cap strategy and lead manager of the Japanese Income Growth strategy. Praveen Kumar is deputy manager. Praveen joined Baillie Gifford in 2008 and has been an investment manager on the Japanese Equities team since 2008.

Baillie Gifford & Co Limited and Baillie Gifford & Co are both authorised and regulated by the Financial Conduct Authority.

## Directors' Report

The Directors present their Report together with the audited Financial Statements of the Company for the year to 31 August 2019.

### Corporate Governance

The Corporate Governance Report is set out on pages 23 to 25 and forms part of this Report.

### Manager and Company Secretaries

Baillie Gifford & Co Limited, a wholly owned subsidiary of Baillie Gifford & Co, has been appointed as the Company's Alternative Investment Fund Manager ('AIFM') and Company Secretaries. Baillie Gifford & Co Limited has delegated portfolio management and services to Baillie Gifford & Co. The Investment Management Agreement between the AIFM and the Company sets out the matters over which the Managers have authority in accordance with the policies and directions of, and subject to restrictions imposed by, the Board. The Management Agreement is terminable on not less than 6 months' notice or on shorter notice in certain circumstances. Compensation would only be payable if termination occurred prior to the expiry of the notice period. Careful consideration has been given by the Board as to the basis on which the management fee is charged. The Board considers that maintaining a relatively low ongoing charges ratio is in the best interests of the shareholders. The Board is also of the view that calculating the fee with reference to performance would be unlikely to exert a positive influence over the long term performance. With effect from 1 January 2019, the annual management fee is 0.75% on the first £50 million of net assets, 0.65% on the next £200 million of net assets and 0.55% on the remaining net assets, calculated and payable quarterly. Prior to 1 January 2019, the annual management fee was 0.95% on the first £50 million of net assets, 0.65% on the next £200 million of net assets and 0.55% on the remaining net assets.

The Board as a whole fulfils the function of the Management Engagement Committee. The Board considers the Company's investment management and secretarial arrangements for the Company on an ongoing basis and a formal review is conducted annually. The Board considers, amongst others, the following topics in its review: the quality of the personnel assigned to handle the Company's affairs; the investment process and the results achieved to date; investment performance; the administrative services provided by the Secretaries and the quality of information provided; the marketing efforts undertaken by the Managers; and the relationship with the Managers.

Following the most recent review it is the opinion of the Directors that the continuing appointment of Baillie Gifford & Co Limited as AIFM and the delegation of investment management services to Baillie Gifford & Co, on the terms agreed, is in the best interests of the Company and shareholders as a whole. This is due to the strength and quality of the investment management team, the Managers' commitment to the investment trust sector and the comprehensive efficiency of the secretarial and administrative functions.

### Depository

In accordance with the Alternative Investment Fund Managers (AIFM) Directive, the AIFM must appoint a Depository to the Company. The Bank of New York Mellon (International) Limited has been appointed as the Company's Depository.

The Depository's responsibilities include cash monitoring, safe keeping of the Company's financial instruments, verifying ownership and maintaining a record of other assets and monitoring the Company's compliance with investment limits and leverage requirements. The custody function is also undertaken by The Bank of New York Mellon (International) Limited.

### Directors

Information about the Directors, including their relevant experience, can be found on page 19.

Ms Sharon Brown was appointed to the Board on 3 October 2019 and is required to seek election by shareholders at the Annual General meeting. She is a Director and Audit Committee Chairman of Fidelity Special Values plc, BMO Capital & Income Investment Trust plc, McColl's Retail Group plc and Celtic plc. She is also a Director of Jupiter European Opportunities Trust plc. The Directors believe her considerable experience and knowledge enhances the Board and recommend her election to shareholders.

The Corporate Governance Code rules require that all Directors be subject to annual election by shareholders. As a result, all other Directors will retire at the Annual General Meeting and, with the exception of Mr Bannerman, who will stand down after the conclusion of the Annual General Meeting, offer themselves for re-election. Following formal performance evaluation, the Chairman confirms that the Board considers that their performance continues to be effective and that they remain committed to the Company. The Board therefore recommends their re-election to shareholders.

The Board also considers that Mr Paling remains independent notwithstanding having served on the Board for more than nine years, as explained on page 23.

### Director Indemnification and Insurance

The Company has entered into qualifying third party deeds of indemnity in favour of each of its Directors. The deeds which were in force during the year to 31 August 2019 and up to the date of approval of this report, cover any liabilities that may arise to a third party, other than the Company, for negligence, default or breach of trust or duty. The Directors are not indemnified in respect of liabilities to the Company, any regulatory or criminal fines, any costs incurred in connection with criminal proceedings in which the Director is convicted or civil proceedings brought by the Company in which judgement is given against him/her. In addition, the indemnity does not apply to any liability to the extent that it is recovered from another person.

The Company maintains Directors' and Officers' liability insurance.

### Conflicts of Interest

Each Director submits a list of potential conflicts of interest to the Nomination Committee on an annual basis. The Committee considers these carefully, taking into account the circumstances surrounding them and makes a recommendation to the Board on whether or not the potential conflicts should be authorised. Board authorisation is for a period of one year. Having considered the lists of potential conflicts there were no situations which gave rise to a direct or indirect interest of a Director which conflicted with the interests of the Company.

## Dividend

The Board recommends a final dividend of 3.50p per ordinary share. If approved, the recommended final dividend will be paid on 13 December 2019 to shareholders on the register at the close of business on 15 November 2019. The ex-dividend date is 14 November 2019. A dividend reinvestment plan (DRIP) is available to shareholders who would prefer to invest their dividends in the shares of the Company. For those shareholders electing to receive the DRIP the last date for receipt of the election is 22 November 2019.

## Share Capital

### Capital Structure

The Company's capital structure consists of 92,424,925 ordinary shares of 5p each at 31 August 2019 (2018 – 90,459,925). There are no restrictions concerning the holding or transfer of the Company's ordinary shares and there are no special rights attached to any of the shares.

### Capital Entitlement

On a winding up, after meeting the liabilities of the Company, the surplus assets will be paid to ordinary shareholders in proportion to their shareholdings.

### Voting

Each ordinary shareholder present in person or by proxy is entitled to one vote on a show of hands and, on a poll, to one vote for every share held.

Information on the deadlines for proxy appointments can be found on pages 51 and 52.

### Major Interests in the Company's Shares

Name	No of ordinary 5p shares held at 31 August 2019	% of issue
Brewin Dolphin Limited (indirect)	4,597,276	5.0
Quilter Cheviot Limited (indirect)	3,547,139	3.8
Rathbone Brothers PLC (indirect)	3,412,614	3.7

There have been no changes to the major interests in the Company's shares intimated up to 7 October 2019.

### Share Issuance Authority

At the last Annual General Meeting, the Directors were granted authority to issue shares up to an aggregate nominal amount of £1,519,165.41 and to issue shares or sell shares held in treasury on a non pre-emptive basis for cash up to an aggregate nominal amount of £455,749.62. These authorities are due to expire at the Annual General Meeting on 5 December 2019.

Resolution 12 in the Notice of Annual General Meeting seeks to renew the Directors' general authority to issue shares up to an aggregate nominal amount of £1,540,261.38. This amount represents 33.33% of the Company's total ordinary share capital in issue at 7 October 2019 and meets institutional guidelines. No issue of ordinary shares will be made pursuant to the authorisation in Resolution 12 which would effectively alter the control of the Company without the prior approval of shareholders in general meeting.

Resolution 13, which is proposed as a special resolution, seeks to provide the Directors with authority to issue shares or sell shares held in treasury on a non pre-emptive basis for cash (i.e. without first offering such shares to existing shareholders pro-rata to their existing holdings) up to an aggregate nominal amount of £462,124.62 (representing 10% of the issued ordinary share capital of the Company as at 7 October 2019). The authorities sought in Resolutions 12 and 13 will continue until the conclusion of the Annual General Meeting to be held in 2020 or on the expiry of 15 months from the passing of this Resolution, if earlier.

Such authorities will only be used to issue shares or re-sell shares from treasury at a premium to net asset value and only when the Directors believe that it would be in the best interests of the Company to do so. The Directors believe that the ability to buy back shares at a discount and re-sell them or issue new shares at a premium are useful tools in smoothing supply and demand. During the year to 31 August 2019 the Company issued, in aggregate, 1,965,000 shares at a premium to net asset value on 17 separate occasions at an average price of 793 pence per share raising proceeds of £15,582,000. No shares were issued between 1 September and 7 October 2019. No shares were held in treasury as at 7 October 2019.

### Market Purchases of Own Shares

At the last Annual General Meeting the Company was granted authority to purchase up to 13,663,373 ordinary shares (equivalent to 14.99% of its issued share capital), such authority to expire at the 2019 Annual General Meeting. The Directors are seeking shareholders' approval at the Annual General Meeting to renew the authority to make market purchases up to 13,854,496 ordinary shares representing approximately 14.99% of the Company's ordinary shares in issue at the date of passing of the Resolution, such authority to expire at the Annual General Meeting of the Company to be held in 2020.

No shares were bought back during the year under review and no shares are held in treasury.

The principal reasons for share buy-backs are:

- (i) to enhance net asset value for continuing shareholders by purchasing shares at a discount to the prevailing net asset value; and
- (ii) to address any imbalance between the supply of and the demand for the Company's shares that results in a discount of the quoted market price to the published net asset value per share.

The Company may hold bought-back shares 'in treasury' and then:

- (i) sell such shares (or any of them) for cash (or its equivalent under the Companies Act 2006); or
- (ii) cancel the shares (or any of them).

All buy-backs will initially be held in treasury. Shares will only be resold from treasury at a premium to net asset value per ordinary share.

The Company shall not be entitled to exercise the voting rights attaching to treasury shares.

In accordance with the Listing Rules of the UK Listing Authority, the maximum price (excluding expenses) that may be paid on the exercise of the authority must not exceed the higher of:

- (i) 5 per cent above the average closing price on the London Stock Exchange of an ordinary share over the five business days immediately preceding the date of purchase; and
- (ii) the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange as stipulated by Article 5(1) of Commission Regulation (EC) 22 December 2003 implementing the Market Abuse Directive as regards exemptions for buy back programmes and stabilisation of financial instruments (No. 2273/2003).

The minimum price (exclusive of expenses) that may be paid will be 5p per share. Purchases of shares will be made within guidelines established, from time to time, by the Board. Your attention is drawn to Resolution 14 in the Notice of Annual General Meeting. This authority, if conferred, will only be exercised if to do so would result in an increase in net asset value per ordinary share for the remaining shareholders and if it is considered in the best interests of shareholders generally.

### Directors' Fee Limit

The Company's Articles of Association provide that Directors' fees may not exceed £150,000 per annum in aggregate, or such larger amount as may be agreed by the Company by ordinary resolution. At the last AGM approval was given to increase the aggregate limit to £200,000 per annum to accommodate the possibility of a temporary increase in the number of Directors as a result of Board refreshment and with a view to creating suitable headroom for future increases in fee levels.

### Articles of Association

The Company's Articles of Association may only be amended by special resolution at a general meeting of shareholders.

### Continuation of the Company

The Company's Articles of Association give shareholders the right to vote annually at the Annual General Meeting of the Company on whether to continue the Company. The Directors wish to draw your attention to Resolution 11 in the Notice of Annual General Meeting, which proposes that the Company be continued until the 2020 Annual General Meeting.

### Financial Instruments

The Company's financial instruments comprise its investment portfolio, cash balances, bank borrowings and debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. The financial risk management objectives and policies arising from its financial instruments and the exposure of the Company to risk are disclosed in note 18 to the Financial Statements.

### Disclosure of Information to Auditor

The Directors confirm that, so far as each of the Directors is aware, there is no relevant audit information of which the Company's Auditor is unaware and the Directors have taken all the steps that they might reasonably be expected to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

### Independent Auditor

The Auditor, KPMG LLP, is willing to continue in office and in accordance with section 489 and section 491(1) of the Companies Act 2006 resolutions concerning their re-appointment and remuneration will be submitted to the Annual General Meeting.

### Post Balance Sheet Events

The Directors confirm that there have been no significant post Balance Sheet events up to 7 October 2019.

### Greenhouse Gas Emissions

All of the Company's activities are outsourced to third parties. The Company therefore has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

### Bribery Act

The Company has a zero tolerance policy towards bribery and is committed to carrying out business fairly, honestly and openly. The Managers also adopt a zero tolerance approach and have policies and procedures in place to prevent bribery.

### Criminal Finances Act 2017

The Company has a commitment to zero tolerance towards the criminal facilitation of tax evasion.

### Recommendation

The Directors consider each resolution being proposed at the Annual General Meeting to be in the best interests of the Company and its shareholders as a whole and they unanimously recommend that all shareholders vote in favour of them, as they intend to do where possible in respect of their own beneficial holdings of shares which amount, in aggregate, to 64,778 shares, representing approximately 0.07% of the current issued share capital of the Company.

On behalf of the Board  
Nick AC Bannerman  
Chairman  
8 October 2019

## Corporate Governance Report

The Board is committed to achieving and demonstrating high standards of Corporate Governance. This statement outlines how the principles of the 2016 UK Corporate Governance Code (the 'Code') which can be found at [www.frc.org.uk](http://www.frc.org.uk) and the relevant principles of the Association of Investment Companies Code of Corporate Governance (the 'AIC Code') were applied throughout the financial year. The AIC Code provides a framework of best practice for investment companies and can be found at [www.theaic.co.uk](http://www.theaic.co.uk).

The Board has noted the new UK Corporate Governance Code published in July 2018 and the new AIC Code of Corporate Governance published in February 2019. The Company will report against these codes for the year ending 31 August 2020.

### Compliance

The Board confirms that the Company has complied throughout the year under review with the relevant provisions of the Code and the recommendations of the AIC Code. The Code includes provisions relating to the role of the chief executive directors' remuneration and the need for an internal audit function. Given that the Company is an externally managed investment trust, the Board considers these provisions are not relevant to the Company (the need for an internal audit function specific to the Company has been addressed on page 26).

### The Board

The Board has overall responsibility for the Company's affairs. It has a number of matters formally reserved for its approval including strategy, investment policy, currency hedging, gearing, treasury matters, dividend and corporate governance policy. A separate strategy session is held annually. The Board also reviews the Financial Statements, investment transactions, revenue budgets and performance of the Company. Full and timely information is provided to the Board to enable it to function effectively and to allow Directors to discharge their responsibilities.

At 31 August 2019, the Board comprises five Directors, all of whom are non-executive. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda.

The executive responsibility for investment management has been delegated to the Company's Alternative Investment Fund Manager ('AIFM'), Baillie Gifford & Co Limited, and, in the context of a Board comprising entirely non-executive Directors, there is no chief executive officer. Mr Paling is the Senior Independent Director.

The Directors believe that the Board has a balance of skills and experience that enables it to provide effective strategic leadership and proper governance of the Company. Information about the Directors, including their relevant experience, can be found on page 19.

There is an agreed procedure for Directors to seek independent professional advice, if necessary, at the Company's expense.

### Appointments to the Board

The terms and conditions of Directors' appointments are set out in formal letters of appointment which are available for inspection on request.

Under the provisions of the Company's Articles of Association, a Director appointed during the year is required to retire and seek election by shareholders at the next Annual General Meeting. Directors are required to submit themselves for re-election at least

once every three years and Directors who have served for more than nine years offer themselves for re-election annually. However in March 2018 the Company moved into the FTSE 250 and as a result, all Directors are subject to annual election by shareholders to comply with Corporate Governance Code rules.

### Independence of Directors

All the Directors are considered by the Board to be independent of the Managers and free of any business or other relationship which could interfere with the exercise of their independent judgement.

The Directors recognise the importance of succession planning for company boards and review the Board composition annually.

The Board is of the view that length of service will not necessarily compromise the independence or contribution of Directors of an investment trust company, where continuity and experience can be a benefit to the Board. The Board concurs with the view expressed in the AIC Code that long serving Directors should not be prevented from being considered independent.

Mr Bannerman and Mr Paling have served on the Board for more than nine years. Following formal performance evaluation, the Board concluded that, notwithstanding their length of service, Mr Bannerman and Mr Paling, continue to be independent in character and judgement. Mr Bannerman has a sound background in finance and Mr Paling has extensive investment experience. Their independence has not been compromised by length of service.

### Meetings

There is an annual cycle of Board meetings which is designed to address, in a systematic way, overall strategy, review of investment policy, investment performance, marketing, revenue budgets, dividend policy and communication with shareholders. The Board considers that it meets sufficiently regularly to discharge its duties effectively. The table below shows the attendance record for the Board and Committee meetings held during the year. The Annual General Meeting was attended by all Directors.

### Directors' Attendance at Meetings

	Board	Audit Committee	Nomination Committee
<b>Number of meetings</b>	<b>5</b>	<b>2</b>	<b>2</b>
NAC Bannerman	5	–*	2
JKR Falconer	5	2	2
DP Kidd	5	2	2
MH Paling	5	2	2
JB Pitman	5	2	2
P Dimond†	2	1	–

\* Mr Bannerman is not a member of the Audit Committee.

† Mr Dimond retired from the Board following the AGM in December 2018.

### Nomination Committee

The Nomination Committee consists of the whole Board and the Chairman of the Board is the Chairman of the Committee. The Committee meets on an annual basis and at such other times as may be required. The Committee has written terms of reference which include reviewing the composition of the Board, identifying and nominating new candidates for appointment to the Board,

Board appraisal, succession planning and training. The Committee also considers whether Directors should be recommended for re-election by shareholders. The Committee is responsible for considering Directors' potential conflicts of interest and for making recommendations to the Board on whether or not the potential conflicts should be authorised.

### Diversity

Appointments to the Board are made on merit with due regard for the benefits of diversity including gender. The priority in appointing new Directors is to identify the candidate with the best range of skills and experience to complement existing Directors. The Board therefore does not consider it appropriate to set diversity targets or apply a diversity policy.

Cornforth Consulting was engaged during the year to help identify potential new Directors in advance of Mr Bannerman's retirement from the Board at the conclusion of this year's Annual General Meeting. Cornforth Consulting has no other connection with the Company or its Directors.

The Committee identified the skills and experience that would be required, having due regard for the benefits of diversity on the Board, and candidates were interviewed from a shortlist of names provided by Cornforth Consulting. Ms Sharon Brown was identified as the preferred candidate due to her excellent audit committee experience, strong business background and investment trust non-executive director experience. Ms Brown was appointed to the Board on 3 October 2019.

The Committee's terms of reference are available on request from the Company and on the Company's page of the Managers' website: [www.japantrustplc.co.uk](http://www.japantrustplc.co.uk).

### Performance Evaluation

An appraisal of the Chairman, each Director and a performance evaluation and review of the Board as a whole and its Committees was carried out during the year. After inviting each Director and the Chairman to consider and respond to an evaluation questionnaire, each Director had an interview with the Chairman and the Chairman's appraisal was led by Mr M Paling, the Senior Independent Director. The appraisals and evaluations considered, amongst other criteria, the balance of skills of the Board, training and development requirements, the contribution of individual Directors and the overall effectiveness of the Board and its Committees. Following this process it was concluded that the performance of each Director, the Chairman, the Board and its Committees continues to be effective and that each Director and the Chairman remain committed to the Company.

A review of the Chairman's and the other Directors' commitments was carried out and the Nomination Committee is satisfied that they are capable of devoting sufficient time to the Company. There were no significant changes to the Chairman's other commitments during the year.

### Induction and Training

New Directors are provided with an induction programme which is tailored to the particular circumstances of the appointee. Briefings were provided during the year on regulatory matters. Directors receive other relevant training as necessary.

### Remuneration

As all the Directors are non-executive, there is no requirement for a separate Remuneration Committee. Directors' fees are considered by the Board as a whole within the limits approved by shareholders. The Company's policy on remuneration is set out in the Directors' Remuneration Report on pages 28 and 29.

### Audit Committee

The report of the Audit Committee is set out on pages 26 and 27.

### Internal Controls and Risk Management

The Directors acknowledge their responsibility for the Company's risk management and internal control systems and for reviewing their effectiveness. The systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company in accordance with the FRC guidance 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'.

The practical measures in relation to the design, implementation and maintenance of control policies and procedures to safeguard the Company's assets and to manage its affairs properly, including the maintenance of effective operational and compliance controls have been delegated to the Managers and Secretaries.

The Board oversees the functions delegated to the Managers and Secretaries and the controls managed by the AIFM in accordance with the Alternative Investment Fund Managers Directive (as detailed below). Baillie Gifford & Co's Internal Audit and Compliance Departments and the AIFM's permanent risk function provide the Audit Committee with regular reports on their monitoring programmes. The reporting procedures for these departments are defined and formalised within a service level agreement. Baillie Gifford & Co conducts an annual review of its system of internal controls which is documented within an internal controls report which complies with ISAE 3402 and Technical Release AAF 01/06 – Assurance Reports on Internal Controls of Service Organisations made available to Third Parties. This report is independently reviewed by Baillie Gifford & Co's Auditor and a copy is submitted to the Audit Committee.

A report identifying the material risks faced by the Company and the key controls employed to manage these risks is reviewed by the Audit Committee.

These procedures ensure that consideration is given regularly to the nature and extent of risks facing the Company and that they are being actively monitored. Where changes in risk have been identified during the year they also provide a mechanism to assess whether further action is required to manage these risks.

The Directors confirm that they have reviewed the effectiveness of the Company's risk management and internal controls systems, which accord with the FRC 'Guidance in the Risk Management, Internal Control and Related Financial and Business Reporting' and they have procedures in place to review their effectiveness on a regular basis. No significant weaknesses were identified in the year under review and up to the date of this Report.

The Board confirms that these procedures have been in place throughout the Company's financial year and continue to be in place up to the date of approval of this Report.

To comply with the Alternative Investment Fund Managers Directive, The Bank of New York Mellon (International) Limited acts as the Company's Depositary, and Baillie Gifford & Co Limited as AIFM.

The Depositary's responsibilities include cash monitoring, safe keeping of the Company's financial instruments, verifying ownership and maintaining a record of other assets and monitoring the Company's compliance with investment limits and leverage requirements. The Depositary is liable for the loss of financial instruments held in custody. The Depositary will ensure that any delegate segregates the assets of the Company. As explained on page 20, the Company's Depositary also acts as the Company's Custodian. The Custodian prepares a report on its key controls and safeguards which is independently reviewed by KPMG LLP. The reports are reviewed by Baillie Gifford's Business Risk Department and a summary of the key points is reported to the Audit Committee and any concerns are investigated.

The Depositary provides the Audit Committee with a report on its monitoring activities.

The AIFM has established a permanent risk management function to ensure that effective risk management policies and procedures are in place and to monitor compliance with risk limits. The AIFM has a risk management policy which covers the risks associated with the management of the portfolio, and the adequacy and effectiveness of this policy is reviewed and approved at least annually. This review includes the risk management processes and systems and limits for each risk area.

The risk limits, which are set by the AIFM and approved by the Board take into account the objectives, strategy and risk profile of the portfolio. These limits, including leverage (see page 56), are monitored and the sensitivity of the portfolio to key risks is undertaken periodically as appropriate to ascertain the impact of changes in key variables in the portfolio. Exceptions from limits monitoring and stress testing are escalated to the AIFM and reported to the Board along with remedial measures being taken.

## Going Concern

In accordance with The Financial Reporting Council's guidance on going concern and liquidity risk, the Directors have undertaken a rigorous review of the Company's ability to continue as a going concern.

The Company's principal risks are market related and include market risk, liquidity risk and credit risk. An explanation of these risks and how they are managed is contained in note 18 to the Financial Statements. The Company's assets, the majority of which are investments in quoted securities which are readily realisable, exceed its liabilities significantly. All borrowings require the prior approval of the Board. Gearing levels and compliance with borrowing covenants are reviewed by the Board on a regular basis.

In accordance with the Company's Articles of Association, shareholders have the right to vote annually at the Annual General Meeting on whether to continue the Company. The Directors have no reason to believe that the continuation resolution will not be passed at the Annual General Meeting. Accordingly, the Financial Statements have been prepared on the going concern basis as it

is the Directors' opinion, having assessed the principal risks and other matters set out in the Viability Statement on page 9, that the Company will continue in operational existence for a period of at least twelve months from the date of approval of these Financial Statements. If the continuation resolution is not passed, the Articles provide that the Directors shall convene a General Meeting within three months at which a special resolution will be proposed to wind up the Company voluntarily. If the Company is wound up, its investments may not be realised at their full market value.

## Relations with Shareholders

The Board places great importance on communication with shareholders. The Company's Managers meet regularly with shareholders and their representatives, accompanied by the Chairman when requested and report shareholders' views to the Board. The Chairman is available to meet with shareholders as appropriate. Shareholders wishing to communicate with any members of the Board may do so by writing to them at the Company's registered office or through the Company's broker, Investec Bank plc (see contact details on back cover).

The Company's Annual General Meeting provides a forum for communication with all shareholders. The level of proxies lodged for each resolution is announced at the Meeting and is published at [www.japantrustplc.co.uk](http://www.japantrustplc.co.uk) subsequent to the meeting. The notice period for the Annual General Meeting is at least twenty working days. Shareholders and potential investors may obtain up-to-date information on the Company from the Managers' website at [www.japantrustplc.co.uk](http://www.japantrustplc.co.uk).

## Corporate Governance and Stewardship

The Company has given discretionary voting powers to Baillie Gifford & Co. The Managers vote against resolutions they consider may damage shareholders' rights or economic interests and report their actions to the Board.

The Company believes that it is in the shareholders' interests to consider environmental, social and governance ('ESG') factors when selecting and retaining investments and has asked the Managers to take these issues into account as long as the investment objectives are not compromised. The Managers do not exclude companies from their investment universe purely on the grounds of ESG factors but adopt a positive engagement approach whereby matters are discussed with management with the aim of improving the relevant policies and management systems and enabling the Managers to consider how ESG factors could impact long term investment returns. The Managers' Statement of Compliance with the UK Stewardship Code can be found on the Managers' website: [www.bailliegifford.com](http://www.bailliegifford.com). The Managers' policy has been reviewed and endorsed by the Board.

The Managers, Baillie Gifford & Co, are signatories of the United Nations Principles for Responsible Investment and the Carbon Disclosure Project and are also members of the Asian Corporate Governance Association and the International Corporate Governance Network.

On behalf of the Board  
Nick AC Bannerman  
Chairman  
8 October 2019

## Audit Committee Report

The Audit Committee consists of all Directors with the exception of Mr NAC Bannerman for the year to 31 August 2019. Mr JKR Falconer is Chairman of the Audit Committee. On the retirement of Mr Bannerman, following this year's AGM, Mr Falconer will be appointed Chairman and Ms Sharon Brown will be appointed Chair of the Audit Committee. Mr Falconer will not be a member of the Audit Committee. The members of the Committee consider that they have the requisite financial skills and experience to fulfil the responsibilities of the Committee. The Committee's authority and duties are clearly defined within its written terms of reference which are available on request from the Company Secretaries and at [www.japantrustplc.co.uk](http://www.japantrustplc.co.uk). The terms of reference are reviewed annually.

The Committee's effectiveness is reviewed on an annual basis as part of the Board's performance evaluation process.

At least once a year the Committee meets with the external Auditor without any representative of the Manager being present.

### Main Activities of the Committee

The Committee met twice during the year and KPMG LLP, the external Auditor, attended both meetings. Baillie Gifford & Co's Internal Audit and Compliance Departments and the AIFM's permanent risk function provided reports on their monitoring programmes for these meetings.

The matters considered, monitored and reviewed by the Committee during the course of the year included the following:

- the preliminary results announcement and the Annual and Interim reports;
- the Company's accounting policies and practices;
- the regulatory changes impacting the Company;
- the fairness, balance and understandability of the Annual Report and Financial Statements and whether it provided the information necessary for shareholders to assess the Company's performance, business model and strategy;
- the effectiveness of the Company's internal control environment;
- the appointment/reappointment, remuneration and terms of engagement of the external Auditor;
- whether the audit services contract should be put out to tender;
- the policy on the engagement of the external Auditor to supply non-audit services;
- the independence and objectivity of the external Auditor and the effectiveness of the audit process;
- the need for the Company to have its own internal audit function;
- the internal controls reports received from the Managers and Custodian; and
- the arrangements in place within Baillie Gifford & Co whereby their staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

### Internal Audit

The Committee continues to believe that the compliance and internal control systems and the internal audit function in place within the Investment Managers provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investment and the Company's assets, is maintained. An internal audit function, specific to the Company, is therefore considered unnecessary.

### Financial Reporting

The Committee considers that the most significant areas of risk likely to impact the Financial Statements are the existence and valuation of investments, as they represent 95.3% of total assets. Another area of risk considered by the Committee is the accuracy and completeness of income from investments.

All of the investments are quoted securities and market prices are readily available from independent external pricing sources. The Committee reviewed the Managers' Report on Internal Controls which details the controls in place regarding recording and pricing of investments, accurate recording of investment income and the reconciliation of investment holdings to third party data.

The value of all the investments at 31 August 2019 were agreed to external price sources and the portfolio holdings agreed to confirmations from the Company's Custodian.

The Managers and Auditor confirmed to the Committee that they were not aware of any material misstatements in the context of the Financial Statements as a whole and that the Financial Statements are in accordance with applicable law and accounting standards.

### Internal Controls and Risk Management

The Committee reviewed the effectiveness of the Company's risk management and internal controls systems as described on pages 24 and 25. No significant weaknesses were identified in the year under review.

### External Auditor

To fulfil its responsibility regarding the independence and objectivity of the external Auditor, the Committee reviewed:

- the audit plan for the current year;
- a report from the Auditor describing their arrangements to manage auditor independence and received confirmation of its independence; and
- the extent of non-audit services provided by the external Auditor. The Auditor will not provide any non-audit services unless approved by the Committee. There were no non-audit fees for the year to 31 August 2019 or 31 August 2018.

To assess the effectiveness of the external Auditor, the Committee reviewed and considered:

- the Auditor's fulfilment of the agreed audit plan;
- feedback from the Secretaries on the performance of the audit team; and
- the Audit Quality Inspection Report from the FRC.

To fulfil its responsibility for oversight of the external audit process the Committee considered and reviewed:

- the Auditor’s engagement letter;
- the Auditor’s proposed audit strategy;
- the audit fee; and
- a report from the Auditor on the conclusion of the audit.

KPMG LLP was appointed as the Company’s Auditor at the Annual General Meeting held on 30 November 2017. The audit partner responsible for the audit will be rotated at least every five years in accordance with professional and regulatory standards in order to protect independence and objectivity and to provide fresh challenge to the business. Mr Waterson, the current partner, will continue as audit partner until the conclusion of the 2022 audit.

KPMG LLP has confirmed that it believes it is independent within the meaning of regulatory and professional requirements and that the objectivity of the audit partner and staff is not impaired.

Having carried out the review described above, the Committee is satisfied that the Auditor remains independent and effective for the purposes of this year’s audit.

There are no contractual obligations restricting the Committee’s choice of external auditor.

### **Accountability and Audit**

The respective responsibilities of the Directors and the Auditor in connection with the Financial Statements are set out on pages 30 to 35.

On behalf of the Board  
JKR Falconer  
Audit Committee Chairman  
8 October 2019

## Directors' Remuneration Report

This report has been prepared in accordance with the requirements of the Companies Act 2006.

### Statement by the Chairman

The Directors' Remuneration Policy is subject to shareholder approval every three years or sooner if an alteration to the policy is proposed. The Remuneration Policy which is set out below was approved at the Annual General Meeting in November 2017 and no changes to the Policy are proposed.

The Board reviewed the level of fees during the year and it was agreed that there would be no change to the Directors' fees. The fees were last increased on 1 September 2018, when the Chairman's fee was increased to £36,000, the Directors' fees to £26,000 with the Audit Committee Chairman's additional fee increased to £3,500 per annum.

### Directors' Remuneration Policy

The Board is composed wholly of non-executive Directors, none of whom has a service contract with the Company. There is no separate remuneration committee and the Board as a whole considers changes to Directors' fees from time to time. Baillie Gifford & Co Limited, the Company Secretaries, provide comparative information when the Board considers the level of Directors' fees.

The Board's policy is that the remuneration of Directors should be set at a reasonable level that is commensurate with the duties and responsibilities of the role and consistent with the requirement to attract and retain Directors of the appropriate quality and experience. The Board believes that the fees paid to the Directors should reflect the experience of the Board as a whole, be fair and should take account of the level of fees paid by comparable investment trusts. Any views expressed by shareholders on the fees being paid to Directors will be taken into consideration by the Board when reviewing the Board's policy on remuneration.

Non-executive Directors are not eligible for any other remuneration or benefits apart from the reimbursement of allowable expenses. There are no performance conditions relating to Directors' fees and there are no long term incentive schemes or pension schemes. No compensation is payable on loss of office.

### Directors' Remuneration for the Year (audited)

The Directors who served during the year received the following remuneration in the form of fees and taxable benefits. This represents the entire remuneration paid to the Directors.

Name	2019 Fees £	2019 Taxable benefits* £	2019 Total £	2018 Fees £	2018 Taxable benefits* £	2018 Total £
NAC Bannerman (Chairman)	36,000	270	<b>36,270</b>	33,000	1,236	<b>34,236</b>
PS Dimond (retired 6 December 2018)	6,900	1,396	<b>8,296</b>	24,000	2,570	<b>26,570</b>
JKR Falconer (Audit Committee Chairman)	29,500	–	<b>29,500</b>	26,500	–	<b>26,500</b>
DP Kidd	26,000	777	<b>26,777</b>	24,000	2,482	<b>26,482</b>
MH Paling	26,000	1,517	<b>27,517</b>	24,000	2,828	<b>26,828</b>
JB Pitman (appointed 28 June 2018)	26,000	1,598	<b>27,598</b>	4,185	–	<b>4,185</b>
	<b>150,400</b>	<b>5,558</b>	<b>155,958</b>	<b>135,685</b>	<b>9,116</b>	<b>144,801</b>

\* Comprises expenses incurred by Directors in the course of travel to attend Board and Committee meetings held at the Edinburgh Offices of Baillie Gifford & Co Limited, the Company's Secretaries.

### Limits on Directors' Remuneration

The fees for the non-executive Directors are payable six monthly in arrears and are determined within the limit set out in the Company's Articles of Association which is currently £200,000 per annum in aggregate.

The fees paid to Directors in respect of the year ended 31 August 2019 and the expected fees payable in respect of the year ending 31 August 2020 are set out in the table below. The fees payable to the Directors in the subsequent financial periods will be determined following an annual review of the Directors' fees.

	Expected fees for year ending 31 Aug 2020 £	Fees as at 31 Aug 2019 £
Chairman's fee	36,000	36,000
Non-executive Director fee	26,000	26,000
Additional fee for Chairman of the Audit Committee	3,500	3,500
Total aggregate annual fees that can be paid to the Directors in any year under the Directors' Remuneration Policy, as set out in the Company's Articles of Association	200,000	200,000

### Annual Report on Remuneration

An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's Auditor to audit certain of the disclosures provided in this report. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in the Independent Auditor's Report on pages 31 to 35.

### Directors' Interests (audited)

The Directors at the end of the year under review, and their interests in the Company, are shown in the following table. There have been no changes intimated in the Directors' interests up to 7 October 2019.

Name	Nature of interest	Ordinary 5p shares held at 31 August 2019	Ordinary 5p shares held at 31 August 2018
NAC Bannerman	Beneficial	11,516	11,512
JKR Falconer	Beneficial	8,000	8,000
DP Kidd	Beneficial	30,000	17,500
MH Paling	Beneficial	10,000	10,000
JB Pitman	Beneficial	5,262	5,262

### Statement of Voting at Annual General Meeting

At the last Annual General Meeting, of the proxy votes received in respect of the Directors' Remuneration Report, 99.3% were in favour, 0.5% were against and votes withheld were 0.2%. At the last Annual General Meeting at which the Directors' Remuneration Policy was considered (November 2017), 99.4% of the proxy votes received were in favour, 0.4% were against and 0.2% were withheld.

### Relative Importance of Spend on Pay

The table below shows the actual expenditure during the year in relation to Directors' remuneration and distributions to shareholders.

	2019 £'000	2018 £'000	Change %
Directors' remuneration	156	145	7.6
Dividends paid to shareholders	547	–	–

### Company Performance

The following graph compares the share price total return (assuming all dividends are reinvested) to ordinary shareholders compared with the total shareholder return on a notional investment made up of shares in the component parts of the TOPIX total return (in sterling terms). This index was chosen for comparison purposes as it is the index against which the Company has measured its performance over the period covered by the graph.

### Performance Graph

(figures rebased to 100 at 31 August 2009)

Past performance is not a guide to future performance.



Source: Baillie Gifford/Refinitiv and relevant underlying index providers. See disclaimer on page 56.

— Baillie Gifford Japan's share price  
— TOPIX total return (in sterling terms)

All figures are total returns (assuming net dividends are reinvested).

### Approval

The Directors' Remuneration Report on pages 28 and 29 was approved by the Board of Directors and signed on its behalf on 8 October 2019.

Nick AC Bannerman  
Chairman

## Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law they are required to prepare the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards, including FRS 102, the Financial Reporting Standard Applicable in the UK and Republic of Ireland.

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- make judgements and accounting estimates that are reasonable and prudent;
- assess the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable laws and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the Company's page on the Managers' website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

### Responsibility Statement of the Directors in Respect of the Annual Financial Report

We confirm to the best of our knowledge:

- the Financial Statements, which have been prepared in accordance with applicable law and United Kingdom Accounting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

We consider the Annual Report and Financial Statements taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

On behalf of the Board  
Nick AC Bannerman  
8 October 2019

### Notes

The following notes relate to financial statements published on a website and are not included in the printed version of the Annual Report and Financial Statements:

- The Directors have delegated responsibility to the Managers for the maintenance and integrity of the Company's page of the Managers' website; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website; and
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



# Independent auditor's report

## to the members of The Baillie Gifford Japan Trust Plc

### 1. Our opinion is unmodified

We have audited the financial statements of The Baillie Gifford Japan Trust Plc ("the Company") for the year ended 31 August 2019 which comprise Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 August 2019 and its return for the year then ended;
- have been properly prepared in accordance UK Accounting Standards, including FRS 102, the Financial Reporting Standards applicable in the UK and Republic of Ireland;
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders on 30 November 2017. The period of total uninterrupted engagement is for the two financial years ended 31 August 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

#### Overview

<b>Materiality:</b>	£8.6m (2018:£8.75m)
Financial statements as a whole	1% (2018: 1%) of Total Assets

#### Key audit matters vs 2018

<b>Recurring risk</b>	Carrying amount of quoted investments	◀▶
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## 2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter (unchanged from 2018), in arriving at our audit opinion above, together with our key audit procedures to address this matter and our findings from those procedures in order that the Company's members as a body may better understand the process by which we arrived at our audit opinion. This matter was addressed, and our findings are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on this matter.

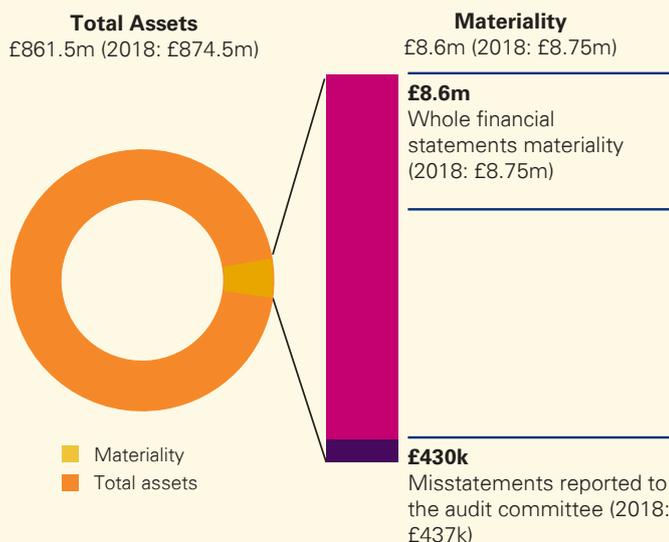
	The risk	Our response
<p><b>Carrying amount of quoted investments</b></p> <p>(£819.6m; 2018: £842.0m)</p> <p>Refer to page 26 (Audit Committee Report), page 40 (accounting policy) and page 43 (financial disclosures).</p>	<p><b>Low risk, high value</b></p> <p>The Company's portfolio of quoted investments makes up 95.1% (2018: 96.3%) of the Company's total assets by value and is considered to be one of the key drivers of results. We do not consider these investments to be at a high risk of significant misstatement, or to be subject to a significant level of judgment because they comprise liquid, quoted investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be one of the areas which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.</p>	<p>Our procedures included:</p> <p><b>Tests of detail:</b> Agreeing the valuation of 100% of quoted investments in the portfolio to externally quoted prices; and</p> <p><b>Enquiry of custodians:</b> Agreeing 100% of investment holdings in the portfolio to independently received third party confirmations from investment custodians.</p> <p><b>Our findings:</b></p> <p>We found no differences from the holdings confirmations or externally quoted prices of a size to require reporting to the audit committee (2018: no differences from the holdings confirmations or externally quoted prices of a size to require reporting to the audit committee).</p>

## 3. Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £8.6m (2018: £8.75m), determined with reference to a benchmark of total assets, of which it represents 1% (2018: 1%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £430k (2018: £437k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was performed at the administrator, Baillie Gifford & Co, in Edinburgh and at our offices.



#### 4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease their operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 25 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

#### 5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

#### *Strategic report and directors' report*

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

#### *Directors' remuneration report*

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

#### *Disclosures of principal risks and longer-term viability*

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the viability statement on page 9 that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Company, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the longer-term viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Company's longer-term viability.

### *Corporate governance disclosures*

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

### **6. We have nothing to report on the other matters on which we are required to report by exception**

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

### **7. Respective responsibilities**

#### *Directors' responsibilities*

As explained more fully in their statement set out on page 30, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

#### *Auditor's responsibilities*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

#### *Irregularities – ability to detect*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors, the manager and the administrator (as required by auditing standards) the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation) and its qualification as an Investment Trust under UK taxation legislation, any breach of which could lead to the company losing various deductions and exemptions from UK corporation tax, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: the Listing Rules and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities and its legal form.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors, the manager and the administrator and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify any actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

#### **8. The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and the terms of our engagement by the Company. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and the further matters we are required to state to them in accordance with the terms agreed with the Company, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

**John Waterson (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG

8 October 2019

## Income Statement

For the year ended 31 August

	Notes	2019 Revenue £'000	2019 Capital £'000	2019 Total £'000	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000
(Losses)/gains on investments	9	–	(34,974)	<b>(34,974)</b>	–	124,982	<b>124,982</b>
Currency (losses)/gains		–	(8,815)	<b>(8,815)</b>	–	581	<b>581</b>
Income	2	13,498	–	<b>13,498</b>	10,874	–	<b>10,874</b>
Investment management fee	3	(4,149)	–	<b>(4,149)</b>	(4,354)	–	<b>(4,354)</b>
Other administrative expenses	4	(654)	–	<b>(654)</b>	(678)	–	<b>(678)</b>
<b>Net return before finance costs and taxation</b>		8,695	(43,789)	<b>(35,094)</b>	5,842	125,563	<b>131,405</b>
Finance costs of borrowings	5	(2,589)	–	<b>(2,589)</b>	(2,521)	–	<b>(2,521)</b>
<b>Net return on ordinary activities before taxation</b>		6,106	(43,789)	<b>(37,683)</b>	3,321	125,563	<b>128,884</b>
Tax on ordinary activities	6	(1,351)	–	<b>(1,351)</b>	(1,087)	–	<b>(1,087)</b>
<b>Net return on ordinary activities after taxation</b>		4,755	(43,789)	<b>(39,034)</b>	2,234	125,563	<b>127,797</b>
<b>Net return per ordinary share</b>	7	<b>5.18p</b>	<b>(47.70p)</b>	<b>(42.52p)</b>	<b>2.54p</b>	<b>142.51p</b>	<b>145.05p</b>
<b>Note:</b>							
Dividends payable in respect of the year	8	<b>3.50p</b>			<b>0.60p</b>		

The total column of this statement is the profit and loss account of the Company. The supplementary revenue and capital return 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.

The accompanying notes on pages 40 to 49 are an integral part of the Financial Statements.

## Balance Sheet

### As at 31 August

	Notes	2019 £'000	2019 £'000	2018 £'000	2018 £'000
<b>Fixed assets</b>					
Investments held at fair value through profit or loss	9		819,646		842,045
<b>Current assets</b>					
Debtors	10	1,508		4,700	
Cash and cash equivalents	18	40,303		27,788	
			41,811	32,488	
<b>Creditors</b>					
Amounts falling due within one year	11	(1,711)		(3,943)	
Bank loans falling due within one year	11	(55,698)		–	
			(57,409)	(3,943)	
<b>Net current (liabilities)/assets</b>			(15,598)		28,545
<b>Total assets less current liabilities</b>			804,048		870,590
<b>Creditors</b>					
Amounts falling due after more than one year	12		(71,943)		(114,486)
<b>Net assets</b>			<b>732,105</b>		<b>756,104</b>
<b>Capital and reserves</b>					
Share capital	13		4,621		4,523
Share premium account	14		190,939		175,455
Capital redemption reserve	14		203		203
Capital reserve	14		531,587		575,448
Revenue reserve	14		4,755		475
<b>Shareholders' funds</b>			<b>732,105</b>		<b>756,104</b>
<b>Net asset value per ordinary share*</b>		15	<b>792.1p</b>		<b>835.8p</b>

The Financial Statements of The Baillie Gifford Japan Trust PLC (Company registration number SC075954) on pages 36 to 49 were approved and authorised for issue by the Board and were signed on 8 October 2019.

Nick AC Bannerman  
Chairman

The accompanying notes on pages 40 to 49 are an integral part of the Financial Statements.

\* See Glossary of Terms and Alternative Performance Measures on page 57.

## Statement of Changes in Equity

### For the year ended 31 August 2019

	Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 September 2018		4,523	175,455	203	575,448	475	<b>756,104</b>
Shares issued	13/14	98	15,484	–	–	–	<b>15,582</b>
Net return on ordinary activities after taxation	14	–	–	–	(43,789)	4,755	<b>(39,034)</b>
Dividends paid in the year	8	–	–	–	(72)	(475)	<b>(547)</b>
<b>Shareholders' funds at 31 August 2019</b>		<b>4,621</b>	<b>190,939</b>	<b>203</b>	<b>531,587</b>	<b>4,755</b>	<b>732,105</b>

### For the year ended 31 August 2018

		Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 September 2017		4,194	122,698	203	449,885	(1,759)	<b>575,221</b>
Shares issued		329	52,757	–	–	–	<b>53,086</b>
Net return on ordinary activities after taxation		–	–	–	125,563	2,234	<b>127,797</b>
<b>Shareholders' funds at 31 August 2018</b>		<b>4,523</b>	<b>175,455</b>	<b>203</b>	<b>575,448</b>	<b>475</b>	<b>756,104</b>

The accompanying notes on pages 40 to 49 are an integral part of the Financial Statements.

## Cash Flow Statement

For the year ended 31 August

	Notes	2019 £'000	2019 £'000	2018 £'000	2018 £'000
<b>Cash flows from operating activities</b>					
Net return on ordinary activities before taxation		(37,683)		128,884	
Net losses/(gains) on investments	9	34,974		(124,982)	
Currency losses/(gains)		8,815		(581)	
Finance costs of borrowings		2,589		2,521	
Overseas withholding tax		(1,311)		(1,051)	
Changes in debtors and creditors		(480)		(76)	
<b>Cash from operations</b>			6,904		4,715
Interest paid			(2,527)		(2,292)
<b>Net cash inflow from operating activities</b>			4,377		2,423
<b>Cash flows from investing activities</b>					
Acquisitions of investments		(110,202)		(183,574)	
Disposals of investments		98,965		112,702	
Exchange differences on settlement of investment transactions		506		791	
<b>Net cash outflow from investing activities</b>			(10,731)		(70,081)
<b>Cash flows from financing activities</b>					
Shares issued	13	15,582		53,086	
Equity dividends paid	8	(547)		–	
Bank loans drawn down		–		62,873	
Bank loans repaid		–		(30,402)	
<b>Net cash inflow from financing activities</b>			15,035		85,557
<b>Increase in cash and cash equivalents</b>					
Exchange movements			3,834		(696)
Cash and cash equivalents at start of period			27,788		10,585
<b>Cash and cash equivalents at end of period*</b>			<b>40,303</b>		<b>27,788</b>

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

The accompanying notes on pages 40 to 49 are an integral part of the Financial Statements.

## Notes to the Financial Statements

### 1 Principal Accounting Policies

The Financial Statements for the year to 31 August 2019 have been prepared in accordance with FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' on the basis of the accounting policies set out below which are unchanged from the prior year and have been applied consistently.

#### (a) Basis of Accounting

The Financial Statements are prepared under the historical cost convention, modified to include the revaluation of fixed asset investments and derivatives, financial instruments at fair value through profit or loss, and on the assumption that approval as an investment trust under section 1158 of the Corporation Tax Act 2010 and the Investment Trust (Approved Company) (Tax) Regulations 2011 will be retained.

The Financial Statements have been prepared in accordance with the Companies Act 2006, applicable UK Accounting Standards and with the AIC's Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' issued in November 2014 and updated in February 2018 with consequential amendments. In order to better reflect the activities of the Company and in accordance with guidance issued by the AIC, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been presented.

Financial assets and financial liabilities are recognised in the Company's Balance Sheet when it becomes a party to the contractual provisions of the instrument.

The Directors consider the Company's functional currency to be sterling, see consideration in accounting policy (j), as the Company's shareholders are predominantly based in the UK, the Company pays its dividends and expenses in sterling and the Company and its investment manager, who are subject to the UK's regulatory environment are also UK based.

#### Going Concern

While the Company has net current liabilities, it has readily realisable listed investments which are significantly in excess of total liabilities. Therefore, the financial statements have been prepared on a going concern basis. In addition, the Company is subject to an annual continuation vote which in previous years has been passed with a significant majority. The Directors have no reason to believe that the vote will not continue to be passed. For these reasons the Directors have prepared the financial statements on a going concern basis.

#### (b) Investments

The Company's investments are classified as held at fair value through profit and loss in accordance with sections 11 and 12 of FRS 102. They are managed and evaluated on a fair value basis in accordance with the Company's investment strategy and information about the investments is provided to the Board on that basis.

Purchases and sales of investments are recognised on a trade date basis.

Investments in securities are held at fair value through profit or loss on initial recognition and are measured at subsequent reporting dates at fair value. The fair value of listed investments is the last traded price which is equivalent to the bid price on Japanese markets. The fair value of unlisted investments is determined by the Directors based upon latest dealing prices, stockbroker valuations, net asset values and other information, as appropriate. Changes in the fair value of investments and gains and losses on disposal are recognised as capital items in the Income Statement.

#### (c) Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and deposits repayable on demand. Deposits are repayable on demand if they can be withdrawn at any time without notice and without penalty or if they have a maturity or period of notice of not more than one working day.

#### (d) Income

- (i) Income from equity investments is brought into account on the date on which the investments are quoted ex-dividend or, where no ex-dividend date is quoted, when the Company's right to receive payment is established.
- (ii) Special dividends are treated as repayments of capital or income depending on the facts of each particular case.
- (iii) Interest from fixed interest securities is recognised on an effective yield basis (none were held in the period).
- (iv) Overseas dividends include withholding tax deducted at source.
- (v) Interest receivable on bank deposits is recognised on an accruals basis.
- (vi) If scrip is taken in lieu of dividends in cash, the net amount of the cash dividend declared is credited to the revenue account. Any excess in the value of the shares received over the amount of the cash dividend foregone is recognised as capital.

#### (e) Expenses

All expenses are accounted for on an accruals basis and are charged to the revenue account except where they relate directly to the acquisition or disposal of an investment, in which case they are added to the cost of the investment or deducted from the sale proceeds. Expenses directly relating to the issuance of shares are deducted from the proceeds of such issuance.

#### (f) Finance Costs

Long term borrowings are carried in the Balance Sheet at amortised cost, representing the cumulative amount of net proceeds after issue, plus accrued finance costs. The finance costs of such borrowings are allocated to the revenue account at a constant rate on the carrying amount.

Gains and losses on the repurchase or early settlement of debt are wholly charged to capital.

#### (g) Deferred Taxation

Deferred taxation is provided on all timing differences which have originated but not reversed by the Balance Sheet date, calculated on a non-discounted basis at the tax rates expected to apply when the timing differences reverse, based on what has been enacted or substantially enacted, relevant to the benefit or liability. Deferred tax assets are recognised only to the extent that it is more likely than not that there will be taxable profits from which underlying timing differences can be deducted.

#### (h) Foreign Currencies

Transactions involving foreign currencies are converted at the rate ruling at the time of the transaction. Monetary assets, liabilities and equity investments held at fair value in foreign currencies are translated at the closing rates of exchange at the Balance Sheet date, with the exception of forward foreign exchange contracts which are valued at the forward rate ruling at the Balance Sheet date. Any gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in the Income Statement and classified as a revenue or capital item as appropriate.

**(i) Capital Reserve**

Gains and losses on disposal of investments, changes in the fair value of investments held, exchange differences of a capital nature and the amount by which other assets and liabilities valued at fair value differ from their book cost are dealt with in this reserve. Purchases of the Company's own shares for cancellation are also funded from this reserve.

**(j) Significant Estimates and Judgements**

The Directors do not believe that any accounting judgements or estimates have been applied to these accounting statements that have a significant risk of causing material adjustment to the carrying amount of assets and liabilities within the next financial year. The Directors believe that there is one key judgement, being the functional currency of the Company. Although the Company invests in yen denominated investments, it has been determined that the functional currency is sterling as the entity is listed on a sterling stock exchange in the UK, and its investment manager is also UK based.

**2 Income**

	2019 £'000	2018 £'000
<b>Income from investments</b>		
Overseas dividends	13,498	10,874
<b>Total income</b>	<b>13,498</b>	<b>10,874</b>
<b>Total income comprises</b>		
Dividends from financial assets designated at fair value through profit or loss	13,498	10,874
<b>Total income</b>	<b>13,498</b>	<b>10,874</b>

**3 Investment Management Fee – all charged to revenue**

	2019 £'000	2018 £'000
Investment management fee	<b>4,149</b>	<b>4,354</b>

Details of the Investment Management Agreement are disclosed on page 20. With effect from 1 January 2019, the annual management fee is 0.75% on the first £50 million of net assets, 0.65% on the next £200 million of net assets and 0.55% on the remaining net assets, calculated and payable quarterly. Prior to 1 January 2019, the annual management fee was 0.95% on the first £50 million of net assets, 0.65% on the next £200 million of net assets and 0.55% on the remaining net assets.

**4 Other Administrative Expenses – all charged to revenue**

	2019 £'000	2018 £'000
General administrative expenses	483	521
Directors' fees (see Directors' Remuneration Report on page 28)	150	136
Auditor's remuneration – statutory audit of Company's annual Financial Statements	21	21
	<b>654</b>	<b>678</b>

There were no fees paid to the Auditor during the year in respect of non-audit services (2018 – nil).

**5 Finance Costs of Borrowings**

	2019 £'000	2018 £'000
Interest on bank loans	<b>2,589</b>	<b>2,521</b>

The bank loan interest disclosed includes £97,000 (2018 – £96,000) paid in respect of yen deposits held at the custodian bank.

## 6 Tax on Ordinary Activities

	2019 £'000	2018 £'000
<b>Analysis of charge in year</b>		
Overseas taxation	<b>1,351</b>	<b>1,087</b>
<b>Factors affecting tax charge for year</b>		
The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 19% (2018 – 19%)		
The differences are explained below:		
Net return on ordinary activities before taxation	(37,683)	128,884
Net return on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2018 – 19%)	(7,159)	24,488
Effects of:		
Capital returns not taxable	8,320	(23,857)
Income not taxable	(2,565)	(2,066)
Overseas withholding tax	1,351	1,087
Taxable losses in year not utilised	1,404	1,435
<b>Tax charge for the year</b>	<b>1,351</b>	<b>1,087</b>

As an investment trust, the Company's capital gains are not taxable.

### Factors that may affect future tax charges

At 31 August 2019 the Company had a potential deferred tax asset of £8,078,000 (2018 – £6,913,000) on taxable losses which is available to be carried forward and offset against future taxable profits. A deferred tax asset has not been recognised on these losses as it is considered unlikely that the Company will make taxable revenue profits in the future and it is not liable to tax on its capital gains. The potential deferred tax asset has been calculated using a corporation tax rate of 17% (2018 – 17%).

Due to the Company's status as an investment trust, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided for deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

## 7 Net Return per Ordinary Share

	2019 Revenue	2019 Capital	2019 Total	2018 Revenue	2018 Capital	2018 Total
Net return on ordinary activities after taxation	<b>5.18p</b>	<b>(47.70p)</b>	<b>(42.52p)</b>	<b>2.54p</b>	<b>142.51p</b>	<b>145.05p</b>

Revenue return per ordinary share is based on the net revenue return on ordinary activities after taxation of £4,755,000 (2018 – £2,234,000), and on 91,802,048 (2018 – 88,108,377) ordinary shares, being the weighted average number of ordinary shares in issue during each year.

Capital return per ordinary share is based on the net capital return for the financial year of (£43,789,000) (2018 – £125,563,000), and on 91,802,048 (2018 – 88,108,377) ordinary shares, being the weighted average number of ordinary shares in issue during each year.

There are no dilutive or potentially dilutive shares in issue.

## 8 Ordinary Dividends

Set out below is the dividend proposed in respect of the financial year, which is the basis on which the requirements of section 1159 of the Corporation Tax Act 2010 are considered. The revenue available for distribution out of current year profits by way of dividend for the year is £4,755,000.

	2019	2018	2019 £'000	2018 £'000
<b>Amounts recognised as distributions in the year:</b>				
Previous year's final (paid 14 December 2018)	0.60p	–	547	–
<b>Dividends paid and payable in respect of the year:</b>				
Current year's proposed final dividend (payable 13 December 2019)	3.50p	0.60p	3,235	547

## 9 Fixed Assets – Investments

	2019 £'000	2018 £'000
<b>Financial assets at fair value through profit or loss</b>		
Listed overseas – equity investments	819,646	842,045
Total investments in financial assets at fair value through profit or loss	<b>819,646</b>	<b>842,045</b>

	Listed equities £'000
Cost of investments held at 1 September 2018	448,392
Investment holding gains at 1 September 2018	393,653
Fair value of investments held at 1 September 2018	<b>842,045</b>
Movements in year:	
Purchases at cost	107,942
Sales – proceeds	(95,367)
– gains on sales	54,444
Changes in investment holding gains	(89,418)
Fair value of investments held at 31 August 2019	<b>819,646</b>
Cost of investments held at 31 August 2019	515,410
Investment holding gains at 31 August 2019	304,236
Fair value of investments held at 31 August 2019	<b>819,646</b>

The purchases and sales proceeds figures above include transaction costs of £56,000 (2018 – £88,000) and £55,000 (2018 – £69,000) respectively.

	2019 £'000	2018 £'000
<b>Net gains on investments designated at fair value through profit or loss on initial recognition</b>		
Gains on sales	54,444	66,171
Changes in investment holding gains	(89,418)	58,811
	<b>(34,974)</b>	<b>124,982</b>

Of the gains on sales during the year of £54,444,000 (2018 – £66,171,000), a net gain of £54,933,000 (2018 – net gain of £52,276,000) was included in the investment holding gains at the previous year end.

## 10 Debtors

	2019 £'000	2018 £'000
Income accrued and prepaid expenses	1,498	1,085
Sales for subsequent settlement	–	3,599
Other debtors	10	16
	<b>1,508</b>	<b>4,700</b>

None of the above debtors are financial assets designated at fair value through profit or loss. The carrying amount of debtors is a reasonable approximation of fair value.

## 11 Creditors – amounts falling due within one year

	2019 £'000	2018 £'000
Purchases for subsequent settlement	–	2,260
Bank loans (see note 12)	55,698	–
Other creditors and accruals	1,711	1,683
	<b>57,409</b>	<b>3,943</b>

None of the above creditors are financial liabilities designated at fair value through profit or loss. Included in other creditors is £1,090,000 (2018 – £1,140,000) in respect of the investment management fee.

## 12 Creditors – amounts falling due after more than one year

	2019 £'000	2018 £'000
Bank loans	<b>71,943</b>	<b>114,486</b>

### Borrowing facilities

	At 31 August 2019 Drawings	At 31 August 2018 Drawings
7 year fixed rate loan facility with ING Bank N.V. for ¥7,200 million, expiring August 2020	¥2,600 million at 2.43% ¥900 million at 2.45% ¥900 million at 2.46% ¥1,800 million at 2.48% ¥1,000 million at 2.50%	¥2,600 million at 2.43% ¥900 million at 2.45% ¥900 million at 2.46% ¥1,800 million at 2.48% ¥1,000 million at 2.50%
7 year fixed rate loan facility with ING Bank N.V. for ¥9,300 million, expiring November 2024	¥9,300 million at 1.585%	¥9,300 million at 1.585%
5 year revolving loan facility with Scotiabank Europe plc for ¥3,000 million, expiring August 2020	–	–

The main covenants relating to the above loans are:

- (i) Total borrowings shall not exceed 40% of the Company's net asset value; and
- (ii) The Company's minimum net asset value shall be £190 million.

There were no breaches of loan covenants during the year.

## 13 Share Capital

	2019 Number	2019 £'000	2018 Number	2018 £'000
Allotted, called up and fully paid ordinary shares of 5p each	<b>92,424,925</b>	<b>4,621</b>	<b>90,459,925</b>	<b>4,523</b>

During the year, 1,965,000 (2018 – 6,580,000) shares were issued at a premium to net asset value raising proceeds of £15,582,000 (2018 – £53,086,000). At 31 August 2019 the Company had authority to buy back 13,663,373 shares. No shares were bought back during the year. Under the provisions of the Company's Articles of Association share buy-backs are funded from the capital reserve.

## 14 Capital and Reserves

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Shareholders' funds £'000
At 1 September 2018	4,523	175,455	203	575,448	475	<b>756,104</b>
Shares issued	98	15,484	–	–	–	<b>15,582</b>
Gains on investments	–	–	–	54,444	–	<b>54,444</b>
Changes in investment holding gains	–	–	–	(89,418)	–	<b>(89,418)</b>
Exchange differences on bank loans	–	–	–	(13,155)	–	<b>(13,155)</b>
Exchange differences on settlement of investment transactions	–	–	–	506	–	<b>506</b>
Other exchange differences	–	–	–	3,834	–	<b>3,834</b>
Revenue return on ordinary activities after taxation	–	–	–	–	4,755	<b>4,755</b>
Dividends paid in the year	–	–	–	(72)	(475)	<b>(547)</b>
At 31 August 2019	<b>4,621</b>	<b>190,939</b>	<b>203</b>	<b>531,587</b>	<b>4,755</b>	<b>732,105</b>

The capital reserve includes investment holding gains of £304,236,000 (2018 – £393,653,000) as disclosed in note 9. The revenue reserve and the capital reserve (to the extent it constitutes realised profits) are distributable.

## 15 Net Asset Value per Ordinary Share

The net asset value per ordinary share and the net assets attributable to the ordinary shareholders at the year end calculated in accordance with the Articles of Association were as follows:

	2019	2018	2019 £'000	2018 £'000
Ordinary shares of 5p	<b>792.1p</b>	<b>835.8p</b>	<b>732,105</b>	<b>756,104</b>

Net asset value per ordinary share is based on the net assets as shown above and 92,424,925 (2018 – 90,459,925) ordinary shares, being the number of ordinary shares in issue at the year end.

Deducting borrowings at fair value would have the effect of reducing net asset value per ordinary share from 792.1p to 789.3p. Taking the market price of the ordinary shares at 31 August 2019 of 791.0p, this would have given a premium to net asset value of 0.2% as against a discount of 0.1% on the basis of deducting borrowings at par. At 31 August 2018 the net asset value per share after deducting borrowings at fair value was 834.0p. Taking the market price of the ordinary shares at 31 August 2018 of 855.0p, this would have given a premium to net asset value of 2.5% as against 2.3% on the basis of deducting borrowings at par.

## 16 Contingent Liabilities, Guarantees and Financial Commitments

There were no contingent liabilities, guarantees or financial commitments at either year end.

## 17 Related Party Transactions

The Directors' fees for the year and Directors' shareholdings at 31 August 2019 are detailed in the Directors' Remuneration Report on pages 28 and 29 respectively. No Director has a contract of service with the Company.

The management fee due to Baillie Gifford and Co Limited is set out in note 3 on page 41 and the amount accrued at 31 August 2019 is set out in note 11 on page 44. Details of the Investment Management Agreement are set out on page 20.

## 18 Financial Instruments

The Company invests in medium to smaller sized Japanese companies and makes other investments so as to achieve its investment objective of long term capital growth. The Company borrows money when the Board and Managers have sufficient conviction that the assets funded by borrowed monies will generate a return in excess of the cost of borrowing. In pursuing its investment objective, the Company is exposed to various types of risk that are associated with the financial instruments and markets in which it invests and could result in a reduction in the Company's net assets.

These risks are categorised here as market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. The Board monitors closely the Company's exposures to these risks but does so in order to reduce the likelihood of a permanent loss of capital rather than to minimise the short term volatility.

The risk management policies and procedures outlined in this note have not changed substantially from the previous accounting period.

### Market Risk

The fair value or future cash flows of a financial instrument or other investment held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements – currency risk, interest rate risk and other price risk. The Board of Directors reviews and agrees policies for managing these risks and the Company's Investment Manager assesses the exposure to market risk when making individual investment decisions as well as monitoring the overall level of market risk across the investment portfolio on an ongoing basis. Details of the Company's investment portfolio are shown on pages 17 and 18.

#### (i) Currency Risk

The Company's assets, liabilities and income are principally denominated in yen. The Company's functional currency and that in which it reports its results is sterling. Consequently, movements in the yen/sterling exchange rate will affect the sterling value of those items.

The Investment Manager monitors the Company's yen exposure (and any other overseas currency exposure) and reports to the Board on a regular basis. The Investment Manager assesses the risk to the Company of the overseas currency exposure by considering the effect on the Company's net asset value and income of a movement in the rates of exchange to which the Company's assets, liabilities, income and expenses are exposed. However, the currency in which a company's share price is quoted is not necessarily the one in which it earns its profits. The movement in exchange rates on overseas earnings may have a more significant impact upon a company's valuation than a simple translation of the currency in which the share price of the company is quoted.

Yen borrowings are used periodically to limit the Company's exposure to anticipated future changes in the yen/sterling exchange rate which might otherwise adversely affect the value of the portfolio of investments. The Company has the authority to use forward currency contracts to limit the Company's exposure if it so chooses to anticipated future changes in exchange rates so that the currency risks entailed in holding the assets are mainly eliminated. No forward currency contracts have been used in the current or prior year.

Exposure to currency risk through asset allocation, which is calculated by reference to the currency in which the asset or liability is quoted, is shown below.

	Investments £'000	Cash and cash equivalents £'000	Bank loans £'000	Other debtors and creditors * £'000	Net exposure £'000
<b>At 31 August 2019</b>					
Yen	819,646	40,316	(71,943)	(54,816)	<b>733,203</b>
Total exposure to currency risk	819,646	40,316	(71,943)	(54,816)	<b>733,203</b>
Sterling	–	(13)	–	(1,085)	<b>(1,098)</b>
	<b>819,646</b>	<b>40,303</b>	<b>(71,943)</b>	<b>(55,901)</b>	<b>732,105</b>

\* Includes net non-monetary assets of £96,000.

	Investments £'000	Cash and cash equivalents £'000	Bank loans £'000	Other debtors and creditors * £'000	Net exposure £'000
<b>At 31 August 2018</b>					
Yen	842,045	27,728	(114,486)	1,933	<b>757,220</b>
Total exposure to currency risk	842,045	27,728	(114,486)	1,933	<b>757,220</b>
Sterling	–	60	–	(1,176)	<b>(1,116)</b>
	<b>842,045</b>	<b>27,788</b>	<b>(114,486)</b>	<b>757</b>	<b>756,104</b>

\* Includes net non-monetary assets of £37,000.

#### Currency Risk Sensitivity

At 31 August 2019, if sterling had strengthened by 10% against the yen, with all other variables held constant, total net assets and net return on ordinary activities after taxation would have decreased by £73,320,000 (2018 – £75,722,000). A 10% weakening of sterling against the yen, with all other variables held constant, total net assets and net return on ordinary activities after taxation would have had a similar but opposite effect on the Financial Statement amounts.

## 18 Financial Instruments (continued)

### (ii) Interest Rate Risk

Interest rate movements may affect the level of income receivable on cash deposits. They may also impact upon the market value of the Company's investments as the effect of interest rate movements upon the earnings of a company may have a significant impact upon the valuation of that company's equity.

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions and when entering borrowing agreements.

The Board reviews on a regular basis the amount of investments in cash and the income receivable on cash deposits.

The Company finances part of its activities through borrowings at approved levels. The amount of such borrowings and the approved levels are monitored and reviewed regularly by the Board.

The interest rate risk profile of the Company's interest bearing financial assets and liabilities at 31 August 2019 is shown below.

#### Financial Assets

Cash deposits generally comprise overnight call or short term money market deposits and earn interest at floating rates based on prevailing bank base rates.

#### Financial Liabilities

The interest rate risk profile of the Company's loans at 31 August was:

	2019 Book value £'000	2019 Weighted average interest rate	2019 Weighted average period until maturity	2018 Book value £'000	2018 Weighted average interest rate	2018 Weighted average period until maturity
<b>Bank loans:</b>						
Yen denominated	127,641	2.0%	41 months	114,486	2.0%	53 months

#### Interest Rate Risk Sensitivity

An increase of 100 basis points in interest rates, with all other variables held constant, would have decreased the Company's total net assets and total return on ordinary activities for the year ended 31 August 2019 by £460,000 (2018 – £156,000). This is mainly due to the Company's exposure to interest rates on its revolving bank loans and cash balances. A decrease of 100 basis points would have had an equal but opposite effect. The Company does not hold bonds.

### (iii) Other Price Risk

Changes in market prices other than those arising from interest rate risk or currency risk may also affect the value of the Company's net assets. The Company's exposure to changes in market prices relates to the fixed asset investments as disclosed in note 9.

The Board manages the market price risks inherent in the investment portfolio by ensuring full and timely access to relevant information from the Investment Manager. The Board meets regularly and at each meeting reviews investment performance, the investment portfolio and the rationale for the current investment positioning to ensure consistency with the Company's objectives and investment policies. The portfolio does not seek to reproduce the index, investments are selected based upon the merit of individual companies and therefore performance may well diverge from the comparative index.

#### Other Price Risk Sensitivity

A full list of the Company's investments is shown on pages 17 and 18. In addition, various analyses of the portfolio by growth category, length of time held, industrial sector and exchange listing are shown on pages 14 to 16.

112.0% (2018 – 111.4%) of the Company's net assets are invested in Japanese quoted equities. A 10% increase in quoted equity valuations at 31 August 2019 would have increased total net assets and net return on ordinary activities after taxation by £81,965,000 (2018 – £84,205,000). A decrease of 10% would have had an equal but opposite effect.

## 18 Financial Instruments (continued)

### Liquidity Risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk is not significant as the majority of the Company's assets are in investments that are readily realisable.

The Board provides guidance to the Investment Manager as to the maximum exposure to any one holding (see Investment Policy on page 7).

The Company has the power to take out borrowings, which give it access to additional funding when required. The Company's borrowing facilities are detailed in note 12.

The maturity profile of the Company's financial liabilities at 31 August was:

	2019 £'000	2018 £'000
In less than one year	55,698	–
In more than one year, but not more than five years	–	49,958
In more than five years	71,943	64,528
	<b>127,641</b>	<b>114,486</b>

### Credit Risk

This is the risk that a failure of a counterparty to a transaction to discharge its obligations under that transaction could result in the Company suffering a loss. This risk is managed as follows:

- where the Investment Manager makes an investment in a bond or other security with credit risk, that credit risk is assessed and then compared to the prospective investment return of the security in question;
- the Depositary is liable for the loss of financial instruments held in custody. The Depositary will ensure that any delegate segregates the assets of the Company. The Depositary has delegated the custody function to Bank of New York Mellon (International) Limited. Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed. The Investment Manager monitors the Company's risk by reviewing the custodian's internal control reports and reporting its findings to the Board;
- investment transactions are carried out with a large number of brokers whose creditworthiness is reviewed by the Investment Manager. Transactions are ordinarily undertaken on a delivery versus payment basis whereby the Company's custodian bank ensures that the counterparty to any transaction entered into by the Company has delivered on its obligations before any transfer of cash or securities away from the Company is completed;
- the creditworthiness of the counterparty to transactions involving derivatives, structured notes and other arrangements, wherein the creditworthiness of the entity acting as broker or counterparty to the transaction is likely to be of sustained interest, are subject to rigorous assessment by the Investment Manager; and
- cash is only held at banks that are regularly reviewed by the Investment Manager.

### Credit Risk Exposure

The exposure to credit risk at 31 August was:

	2019 £'000	2018 £'000
Cash and cash equivalents	40,303	27,788
Debtors	1,403	4,647
	<b>41,706</b>	<b>32,435</b>

None of the Company's financial assets are past due or impaired.

### Fair Value of Financial Assets and Financial Liabilities

The Company's investments are stated at fair value and the Directors are of the opinion that the reported values of the Company's other financial assets and liabilities approximate to fair value with the exception of the long term borrowings which are stated at amortised cost. The fair value of borrowings is shown below.

	2019 Book value £'000	2019 Fair* value £'000	2018 Book value £'000	2018 Fair* value £'000
Yen bank loans	<b>127,641</b>	<b>130,192</b>	<b>114,486</b>	<b>116,111</b>

\*The fair value of each bank loan is calculated with reference to a Japanese government bond of comparable yield and maturity.

## 18 Financial Instruments (continued)

### Capital Management

The Company does not have any externally imposed capital requirements other than the loan covenants detailed in note 12 on page 44. The capital of the Company is the ordinary share capital as detailed in note 13. It is managed in accordance with its investment policy in pursuit of its investment objective, both of which are detailed on page 7, and shares may be repurchased or issued as explained on pages 21 and 22.

### Fair Value of Financial Instruments

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;

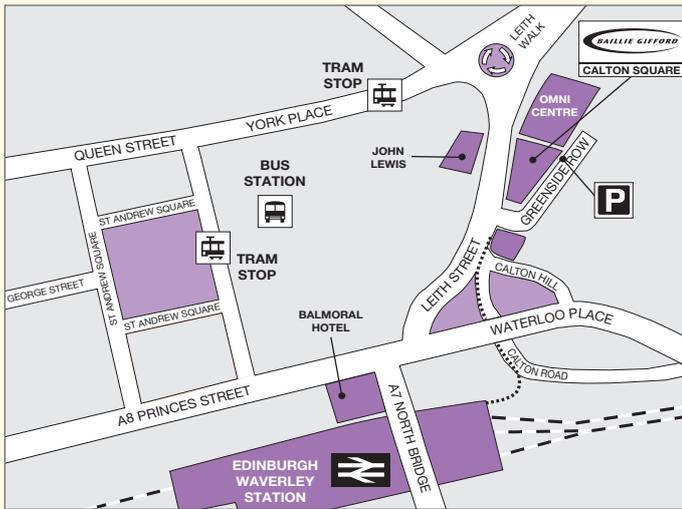
**Level 2** – using inputs, other than quoted prices included within Level 1, that are directly or indirectly observable (based on market data);  
and

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

The valuation techniques used by the Company are explained in the accounting policies on page 40.

The financial assets designated as valued at fair value through profit or loss are all categorised as Level 1 in the above hierarchy (2018 – same). None of the financial liabilities are designated at fair value through profit or loss in the Financial Statements.

## Notice of Annual General Meeting



The Annual General Meeting of the Company will be held at the offices of Baillie Gifford & Co, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, on Thursday, 5 December 2019 at 12.30pm.

If you have any queries as to how to vote or how to attend the meeting, please call us on 0800 917 2112.

Baillie Gifford may record your call.

	<b>By Rail:</b> Edinburgh Waverley – approximately a 5 minute walk away
	<b>By Bus:</b> Lothian Buses local services include: 1, 5, 7, 8, 10, 12, 14, 15, 15A, 16, 22, 25, 34
	<b>By Tram:</b> Stops at St Andrew Square and York Place
..... Access to Waverley Train Station on foot	

Notice is hereby given that the thirty eighth Annual General Meeting of The Baillie Gifford Japan Trust PLC will be held at the offices of Baillie Gifford & Co, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, on Thursday, 5 December 2019 at 12.30pm for the following purposes.

### Ordinary Business

To consider and, if thought fit, to pass the following Resolutions as Ordinary Resolutions.

- To receive and adopt the Financial Statements of the Company for the year to 31 August 2019 with the Reports of the Directors and of the Independent Auditor thereon.
- To approve the Directors' Annual Report on Remuneration for the year to 31 August 2019.
- To declare a final dividend of 3.50p per ordinary share.
- To re-elect Mr JKR Falconer as a Director.
- To re-elect Mr DP Kidd as a Director.
- To re-elect Mr MH Paling as a Director.
- To re-elect Ms JB Pitman as a Director.
- To elect Ms S Brown as a Director.
- To re-appoint KPMG LLP as Independent Auditor of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting at which the Financial Statements are laid before the Company.
- To authorise the Directors to determine the remuneration of the Independent Auditor of the Company.
- That, pursuant to article 165 of the Articles of Association of the Company, this meeting hereby approves the continuance of the Company until the Annual General Meeting of the Company held in respect of the year to 31 August 2020.
- That, in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Directors of the Company be and they are hereby generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the 'Act') to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert

any security into shares in the Company ('Securities') provided that such authority shall be limited to the allotment of shares and the grant of rights in respect of shares with an aggregate nominal value of up to £1,540,261.38, such authority to expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the expiry of 15 months from the passing of this resolution, whichever is the earlier, unless previously revoked, varied or extended by the Company in a general meeting, save that the Company may at any time prior to the expiry of this authority make an offer or enter into an agreement which would or might require Securities to be allotted or granted after the expiry of such authority and the Directors shall be entitled to allot or grant Securities in pursuance of such an offer or agreement as if such authority had not expired.

To consider and, if thought fit, to pass Resolutions 13 and 14 as Special Resolutions.

13. That, subject to the passing of Resolution 12 above, and in substitution for any existing power but without prejudice to the exercise of any such power prior to the date hereof, the Directors of the Company be and they are hereby generally empowered, pursuant to sections 570 and 573 of the Companies Act 2006 (the 'Act'), to allot equity securities (within the meaning of section 560(1) of the Act), for cash pursuant to the authority given by Resolution 11 above, and to sell treasury shares for cash, as if section 561(1) of the Act did not apply to any such allotment or sale, provided that this power:

- expires at the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution or on the expiry of 15 months from the passing of this Resolution, whichever is the earlier, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted or treasury shares to be sold after such expiry and the Directors may allot equity securities or sell treasury shares in pursuance of any such offer or agreement as if the power conferred hereby had not expired; and

- (b) shall be limited to the allotment of equity securities or the sale of treasury shares up to an aggregate nominal value of £462,124.62, being approximately 10% of the nominal value of the issued share capital of the Company, as at 11 October 2019.
14. That, in substitution for any existing authority but without prejudice to the exercise of any such authority prior to the date hereof, the Company be and is hereby generally and unconditionally authorised, pursuant to and in accordance with section 701 of the Companies Act 2006 (the 'Act') to make market purchases (within the meaning of section 693(4) of the Act) of fully paid ordinary shares of 5 pence each in the capital of the Company ('ordinary shares') (either for retention as treasury shares for future reissue, resale, transfer or cancellation), provided that:
- (a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 13,854,496, or, if less, the number representing approximately 14.99% of the issued ordinary share capital of the Company as at the date of the passing of this Resolution;
- (b) the minimum price (excluding expenses) which may be paid for each ordinary share is 5 pence;
- (c) the maximum price (excluding expenses) which may be paid for each ordinary share shall not be more than the higher of:
- (i) 5 per cent. above the average closing price on the London Stock Exchange of an ordinary share over the five business days immediately preceding the date of purchase; and
- (ii) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange as stipulated by Article 5(1) of Commission Regulation (EC) 22 December 2003 implementing the Market Abuse Directive as regards exemptions for buy back programmes and stabilisation of financial instruments (No. 2273/2003); and
- (d) unless previously varied, revoked or renewed by the Company in a general meeting, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in respect of the year ending 31 August 2020, save that the Company may, prior to such expiry, enter into a contract to purchase ordinary shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to any such contract.

## Notes

- As a member you are entitled to appoint a proxy or proxies to exercise all or any of your rights to attend, speak and vote at the AGM. A proxy need not be a member of the Company but must attend the AGM to represent you. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You can only appoint a proxy using the procedure set out in these notes and the notes to the proxy form. You may not use any electronic address provided either in this notice or any related documents (including the financial statements and proxy form) to communicate with the Company for any purpose other than those expressly stated.
- To be valid any proxy form or other instrument appointing a proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, must be received by post or (during normal business hours only) by hand at the Registrars of the Company at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY or [www.eproxyappointment.com](http://www.eproxyappointment.com) no later than 2 days (excluding non-working days) before the time of the meeting or any adjourned meeting.
- CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual and/or by logging on to the website [www.euroclear.com/CREST](http://www.euroclear.com/CREST). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
- In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's registrar (ID 3RA50) no later than 2 days (excluding non-working days) before the time of the meeting or any adjournment. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

By order of the Board  
Baillie Gifford & Co Limited  
Managers and Secretaries  
5 November 2019

## Shareholder Information

5. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his/her CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
6. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
7. The return of a completed proxy form or other instrument of proxy will not prevent you attending the AGM and voting in person if you wish.
8. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 and section 311 of the Companies Act 2006 the Company specifies that to be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company no later than 2 days (excluding non-working days) prior to the commencement of the AGM or any adjourned meeting. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
9. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
10. The statement of the rights of shareholders in relation to the appointment of proxies in Notes 1 and 2 above does not apply to Nominated Persons. The rights described in those Notes can only be exercised by shareholders of the Company.
11. The members of the Company may require the Company to publish, on its website, (without payment) a statement (which is also passed to the Auditor) setting out any matter relating to the audit of the Company's Financial Statements, including the Auditor's report and the conduct of the audit. The Company will be required to do so once it has received such requests from either members representing at least 5% of the total voting rights of the Company or at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state your full name and address and be sent to the Company at Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN.
12. Information regarding the Annual General Meeting, including information required by section 311A of the Companies Act 2006, is available from the Company's page of the Managers' website at [www.japantrustplc.co.uk](http://www.japantrustplc.co.uk).
13. Members have the right to ask questions at the meeting in accordance with section 319A of the Companies Act 2006.
14. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
15. As at 11 October 2019 (being the last practicable day prior to the publication of this notice) the Company's issued share capital consisted of 92,424,925 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 11 October 2019 were 92,424,925 votes.
16. Any person holding 3% or more of the total voting rights of the Company who appoints a person other than the Chairman of the meeting as his/her proxy will need to ensure that both he/she and his/her proxy complies with their respective disclosure obligations under the UK Disclosure and Transparency Rules.
17. No Director has a contract of service with the Company.

## Further Shareholder Information

### Baillie Gifford Japan is an investment trust. Investment trusts offer investors the following:

- participation in a diversified portfolio of shares;
- constant supervision by experienced professional managers; and
- the Company is free from capital gains tax on capital profits realised within its portfolio, although investors are still liable for capital gains tax on profits when selling their investment.

### How to Invest

The Company's shares are traded on the London Stock Exchange. They can be bought by placing an order with a stockbroker or by asking a professional adviser to do so. If you are interested in investing directly in Baillie Gifford Japan, you can do so online. There are a number of companies offering real time online dealing services. Find out more by visiting the investment trust pages at [www.bailliegifford.com](http://www.bailliegifford.com).

### Sources of Further Information on the Company

The price of shares is quoted daily in the Financial Times and can also be found on the Company's page of the Managers' website at [www.japantrustplc.co.uk](http://www.japantrustplc.co.uk), Trustnet at [www.trustnet.co.uk](http://www.trustnet.co.uk) and on other financial websites. Monthly factsheets are also available on the Baillie Gifford website. These are available from Baillie Gifford on request.

### Baillie Gifford Japan Identifiers

ISIN	GB0000485838
Sedol	0048583
Ticker	BGFD
Legal Entity Identifier	54930037AGTKN765Y741

The ordinary shares of the Company are listed on the London Stock Exchange and their price is shown in the Financial Times and The Scotsman under 'Investment Companies'.

### Key Dates

The Annual Report and Financial Statements are normally issued in October and the AGM is normally held in November or December. Dividends will be paid by way of a single final payment shortly after the Company's AGM.

### Capital Gains Tax

The cost for capital gains taxation purposes to shareholders who subscribed for ordinary shares (with warrants attached) is apportioned between the ordinary shares and the warrants on the following basis:

Cost of each ordinary share	96.548p
Cost of fraction for warrant	3.452p
	<u>100.000p</u>

The market value of the ordinary shares on 31 March 1982 was 15.4p. The market values on 20 November 1991 (first day of dealing of new warrants) were as follows:

Ordinary shares	120p
Warrants	26p

The above cost and market value figures have been restated for the five for one share split in November 2000.

### 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 3221.

This helpline also offers an automated self-service functionality (available 24 hours a day, 7 days a week) which allows you to:

- hear the latest share price;
- confirm your current share holding balance; and
- order Change of Address and Stock Transfer forms.

You can also check your holding on the Registrars' website at [www.investorcentre.co.uk](http://www.investorcentre.co.uk). They also offer a free, secure share management website service which allows you to:

- view your share portfolio and see the latest market price of your shares;
- calculate the total market price of each shareholding;
- view price histories and trading graphs;
- change address details; and
- use online dealing services.

To take advantage of this service, please log in at [www.investorcentre.co.uk](http://www.investorcentre.co.uk) and enter your Shareholder Reference Number and Company Code (this information can be found on your share certificate).

### Dividend Reinvestment Plan

Computershare operates a Dividend Reinvestment Plan which can be used to buy additional shares instead of receiving your dividend via cheque or into your bank account. For further information log into [www.investorcentre.co.uk](http://www.investorcentre.co.uk) and follow the instructions or telephone 0370 707 1694.

### Electronic Proxy Voting

If you hold stock in your own name you can choose to vote by returning proxies electronically at [www.eproxyappointment.com](http://www.eproxyappointment.com).

If you have any questions about this service please contact Computershare on 0370 889 3221.

### CREST Proxy Voting

If you are a user of the CREST system (including a CREST Personal Member), you may appoint one or more proxies or give an instruction to a proxy by having an appropriate CREST message transmitted. For further information please refer to the CREST Manual.

### Analysis of Shareholders at 31 August

	2019 Number of shares held	2019 %	2018 Number of shares held	2018 %
Institutions	16,405,662	17.8	16,609,631	18.4
Intermediaries/ Retail Savings Platforms	70,917,417	76.7	66,064,789	73.0
Individuals	4,005,877	4.3	3,728,026	4.1
Baillie Gifford Share Plans/ISA	586,591	0.6	3,804,290	4.2
Marketmakers	509,378	0.6	253,189	0.3
	<b>92,424,925</b>	<b>100.0</b>	<b>90,459,925</b>	<b>100.0</b>

### Data Protection

The Company is committed to ensuring the confidentiality and security of any personal data provided to it. Further details on how personal data is held and processed on behalf of the Company can be found in the privacy policy available on the Company's website [www.japantrustplc.co.uk](http://www.japantrustplc.co.uk).

### Cost-effective Ways to Buy and Hold Shares in Baillie Gifford Japan Trust

Information on how to invest in Baillie Gifford Japan Trust can be found at [www.japantrustplc.co.uk](http://www.japantrustplc.co.uk).

### Further information

If you would like more information on any of the plans described, please contact the Baillie Gifford Client Relations Team. (See contact details on page 55).

### Risks

Past performance is not a guide to future performance.

Baillie Gifford Japan is a listed UK company. As a result, the value of the shares and, any income from those shares, can fall as well as rise and investors may not get back the amount invested.

As Baillie Gifford Japan 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.

Baillie Gifford Japan has borrowed 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 borrowings will increase the amount of this loss.

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

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.

Investment in smaller companies is 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 Japan invests in Japan and exposure to a single market and currency may increase risk.

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

Charges are deducted from income. Where income is low, the expenses may be greater than the total income received, meaning the Company may not pay a dividend and the capital value would be reduced.

The aim of this Trust is to achieve capital growth. You should not expect a significant or steady annual income from the Trust.

Shareholders in Baillie Gifford Japan have the right to vote at the Annual General Meeting on whether to continue the Company, or wind it up. If the shareholders decide to wind the Company up, the assets will be sold and you will receive a cash sum in relation to your shareholding.

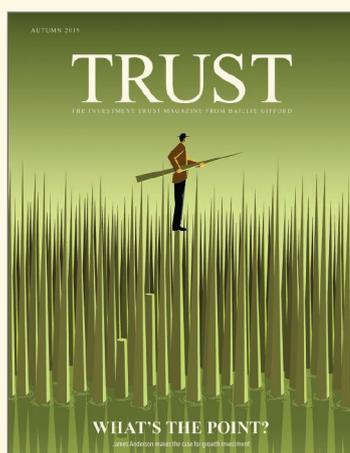
You should note that tax rates and reliefs may change at any time and their value depends on your circumstances. The favourable tax treatment of ISAs may change.

Investment Trusts are UK public listed companies and as such comply with the requirements of the UK Listing Authority. They are not authorised or regulated by the Financial Conduct Authority.

Further details of the risks associated with investing in the Company can be found at [www.japantrustplc.co.uk](http://www.japantrustplc.co.uk) or by calling Baillie Gifford on 0800 917 2112.

The information and opinions expressed in this document are subject to change without notice. This information has been issued and approved by Baillie Gifford & Co and does not in any way constitute investment advice.

## Communicating with Shareholders



Trust Magazine

### Trust Magazine

*Trust* is the Baillie Gifford investment trust magazine which is published twice a year. It provides an insight to our investment approach by including interviews with our fund managers, as well as containing investment trust news, investment features and articles about the trusts managed by Baillie Gifford, including Baillie Gifford Japan. *Trust* plays an important role in helping to explain our products so that readers can really understand them. For a copy of *Trust*, please contact the Baillie Gifford Client Relations Team (see contact details opposite).

You can subscribe to *Trust* magazine or view a digital copy at [www.bailliegifford.com/trust](http://www.bailliegifford.com/trust).

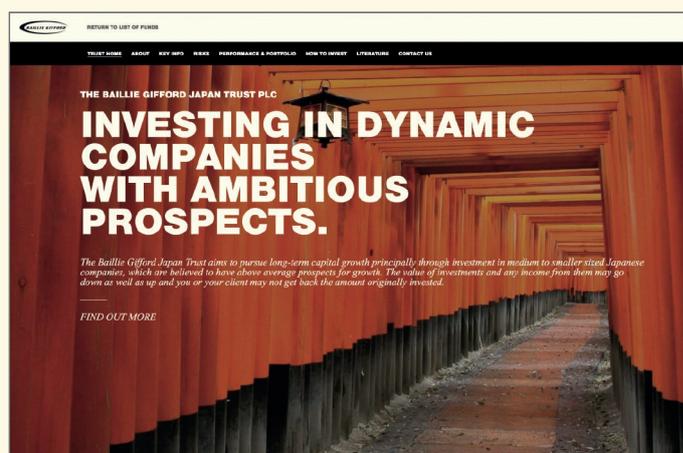
### Baillie Gifford Japan on the Web

Up-to-date information about Baillie Gifford Japan, including a monthly commentary, recent portfolio information and performance figures, can be found on the Company's page of the Managers' website at [www.japantrustplc.co.uk](http://www.japantrustplc.co.uk).

You can also find a brief history of Baillie Gifford Japan, an explanation of the effects of gearing and a flexible performance reporting tool.

### Suggestions and Questions

Any suggestions on how communications with shareholders can be improved are welcomed, so please contact the Baillie Gifford Client Relations Team and give them your suggestions. They will also be very happy to answer questions that you may have, either about Baillie Gifford Japan.



A Baillie Gifford Japan Trust web page at [www.japantrustplc.co.uk](http://www.japantrustplc.co.uk)

### Literature in Alternative Formats

It is possible to provide copies of the literature in alternative formats, such as large print or on audio tape. Please contact the Baillie Gifford Client Relations Team for more information.

### Client Relations Team Contact Details

You can contact the Baillie Gifford Client Relations Team by telephone, e-mail, fax or post:

**Telephone:** 0800 917 2112

Your call may be recorded for training or monitoring purposes.

**E-mail:** [trutenquiries@bailliegifford.com](mailto:trutenquiries@bailliegifford.com)

**Website:** [www.bailliegifford.com](http://www.bailliegifford.com)

**Fax:** 0131 275 3955

Client Relations Team  
Calton Square  
1 Greenside Row  
Edinburgh EH1 3AN

## Alternative Investment Fund Managers (AIFM) Directive

In accordance with the AIFM Directive, information in relation to the Company's leverage and the remuneration of the Company's AIFM, Baillie Gifford & Co Limited, is required to be made available to investors. In accordance with the Directive, the AIFM remuneration policy is available at [www.bailliegifford.com](http://www.bailliegifford.com) or on request (see contact details on the back cover). The numerical remuneration disclosures in respect of the AIFM's reporting period (year ended 31 March 2019) are available at [www.bailliegifford.com](http://www.bailliegifford.com).

The Company's maximum and actual leverage (see Glossary of Terms and Alternative Measures on page 58) levels at 31 August 2019 are shown below:

### Leverage

	Gross method	Commitment method
Maximum limit	2.50:1	2.00:1
Actual	1.17:1	1.17:1

## Automatic Exchange of Information

In order to fulfil its obligations under UK Tax Legislation relating to the automatic exchange of information, the Company 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. As an affected company, The Baillie Gifford Japan Trust PLC must provide information annually to the local tax authority on the tax residencies of a number of non-UK based certificated shareholders and corporate entities.

All new 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 <https://www.gov.uk/government/publications/exchange-of-information-account-holders>.

## Third Party Data Provider Disclaimer

No third party data provider ('Provider') makes any warranty, express or implied, as to the accuracy, completeness or timeliness of the data contained herewith nor as to the results to be obtained by recipients of the data.

No Provider shall in any way be liable to any recipient of the data for any inaccuracies, errors or omissions in the index data included in this document, regardless of cause, or for any damages (whether direct or indirect) resulting therefrom. No Provider has any obligation to update, modify or amend the data or to otherwise notify a recipient thereof in the event that any matter stated herein changes or subsequently becomes inaccurate.

Without limiting the foregoing, no Provider shall have any liability whatsoever to you, whether in contract (including under an indemnity), in tort (including negligence), under a warranty, under statute or otherwise, in respect of any loss or damage suffered by you as a result of or in connection with any opinions, recommendations, forecasts, judgments, or any other conclusions, or any course of action determined, by you or any third party, whether or not based on the content, information or materials contained herein.

## Benchmark

The Benchmark for the Trust where stated within the Annual Report is the TOPIX total return (in sterling terms).

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

### Total Assets

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

### Net Asset Value

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 Fair Value)# (APM)

Borrowings are valued at an estimate of their market worth.

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

Borrowings are valued at their nominal par value. Par value approximates to amortised cost.

### Net Asset Value (Reconciliation of NAV at Par to NAV at Fair)

	31 August 2019 £'000	31 August 2018 £'000
Shareholders' funds (borrowings at par value)	732,105	756,104
Add: par value of borrowings	127,641	114,486
Less: fair value of borrowings	(130,192)	(116,111)
<b>Shareholders' funds (borrowings at fair value)</b>	<b>729,554</b>	<b>754,479</b>
Shares in issue	92,424,925	90,459,925
<b>Net Asset Value per ordinary share (borrowings at fair value)</b>	<b>789.3p</b>	<b>834.0p</b>

### Net Current Assets

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

### Premium/(Discount)# (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.

### 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.

		August 2019 NAV (fair)	August 2019 NAV (par)	August 2019 Share price
Closing NAV per share/share price	(a)	793.3p	792.1p	791.0p
Dividend adjustment factor*	(b)	1.0008	1.0008	1.0008
Adjusted closing NAV per share/share price	(c = a x b)	789.9p	792.7p	791.6p
Opening NAV per share/share price	(d)	834.0p	835.8p	855.0p
<b>Total return</b>	(c ÷ d) - 1	<b>(5.3%)</b>	<b>(5.2%)</b>	<b>(7.4%)</b>

\* The dividend adjustment factor is calculated on the assumption that the dividend of 0.60p paid by the Company during the year was invested into shares of the Company at the cum income NAV per share/share price, as appropriate, at the ex-dividend date.

#Alternative performance measure which is considered to be a known industry metric.

### 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).

		2019 £'000	2018 £'000
Investment management fee		4,149	4,354
Other administrative expenses		654	678
<b>Total expenses</b>	(a)	<b>4,803</b>	<b>5,032</b>
Average net asset value (borrowings at fair value)	(b)	686,294	685,716
<b>Ongoing charges (a)÷(b) expressed as a percentage</b>		<b>0.70%</b>	<b>0.73%</b>

### 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. The level of gearing can be adjusted through the use of derivatives which affect the sensitivity of the value of the portfolio to changes in the level of markets.

Gearing is the Company's borrowings at par 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.

### 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.

## Directors

Chairman:  
Nick AC Bannerman

J Keith R Falconer  
David P Kidd  
Martin H Paling  
Joanna Pitman

## Alternative Investment Fund Managers, Secretaries and Registered Office

Baillie Gifford & Co Limited  
Calton Square  
1 Greenside Row  
Edinburgh  
EH1 3AN  
Tel: 0131 275 2000  
[www.bailliegifford.com](http://www.bailliegifford.com)

## Registrar

Computershare Investor  
Services PLC  
The Pavilions  
Bridgwater Road  
Bristol  
BS99 6ZZ  
Tel: 0370 889 3221

## Brokers

Investec Bank plc  
30 Gresham Street  
London  
EC2V 7QP

## Independent Auditor

KPMG LLP  
Saltire Court  
20 Castle Terrace  
Edinburgh  
EH1 2EG

## Depository

The Bank of New York Mellon  
(International) Limited  
1 Canada Square  
London  
E14 5AL

## Company Details

[www.japantrustplc.co.uk](http://www.japantrustplc.co.uk)  
Company Registration  
No. SC075954  
ISIN GB0000485838  
Sedol 0048583  
Ticker BGFD

Legal Entity Identifier:  
54930037AGTKN765Y741

## Further Information

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Fax: 0131 275 3955