

Baillie Gifford Japanese Fund

31 December 2024

About Baillie Gifford

Philosophy	Long-term investment horizon A growth bias Bottom-up portfolio construction High active share
Partnership	100% owned by 58 partners with average 20 years' service Ownership aligns our interests with those of our clients Enables us to take a thoughtful, long-term view in all that we do Stability, quality and consistency

Investment Proposition

Our objective is to produce above-average long-term performance through investment in Japanese equities. We believe the Japanese equity market offers active managers a broad selection of high quality companies capable of delivering attractive and sustainable earnings growth for shareholders. Over time we expect this approach to generate better returns than the Japanese market. In contrast to other major markets, growth often commands little or no valuation premium in Japan, and we continue to identify global leading businesses which trade on a substantial discount to their peers. This provides an excellent backdrop for our investment style.

Fund Facts

Fund Launch Date	08 October 1984
Fund Size	£1268.8m
IA Sector	Japan
Active Share	82%*
Current Annual Turnover	10%
Current number of stocks	61
Stocks (guideline range)	45-65

*Relative to TOPIX (in sterling). Source: Baillie Gifford & Co, Japan Exchange Group.

Fund Manager

Name	Years' Experience
Matt Brett*	21

*Partner

Fund Objective

To outperform (after deduction of costs) the TOPIX, as stated in sterling, by at least 1.5% per annum over rolling five-year periods.

The manager believes this is an appropriate target given the investment policy of the Fund and the approach taken by the manager when investing. In addition, the manager believes an appropriate performance comparison for this Fund is the Investment Association Japan Sector.

There is no guarantee that this objective will be achieved over any time period and actual investment returns may differ from this objective, particularly over shorter time periods.

Periodic Performance

	3 Months	1 Year	3 Years (p.a.)	5 Years (p.a.) [†]
Class B-Acc (%)	-2.7	4.0	-3.1	1.8
Index (%) [*]	2.8	10.0	6.1	5.9
Target (%) ^{**}	3.2	11.6	7.7	7.5
Sector Average (%) ^{***}	1.6	8.7	3.7	5.2

Source: FE, Revolution, Japan Exchange Group. Total return net of charges, in sterling.

Share class returns calculated using 10am prices, while the Index is calculated close-to-close.

Baillie Gifford operates a single swinging price for the Fund and, therefore, may apply a dilution adjustment to the price to protect long-term investors from the costs associated with buying and selling underlying investments that result from other investors joining or leaving the Fund. This adjustment will affect relative performance, either positively or negatively.

^{*}TOPIX (in sterling).

^{**}TOPIX (in sterling) plus at least 1.5% per annum over rolling five-year periods.

^{***}IA Japan Sector.

Discrete Performance

	31/12/19- 31/12/20	31/12/20- 31/12/21	31/12/21- 31/12/22	31/12/22- 31/12/23	31/12/23- 31/12/24
Class B-Acc (%)	18.6	1.1	-13.8	1.5	4.0
Index (%) [*]	9.5	2.0	-4.1	13.3	10.0
Target (%) ^{**}	11.2	3.5	-2.7	15.0	11.7
Sector Average (%) ^{***}	13.8	1.8	-8.1	11.6	8.7

Source: FE, Revolution, Japan Exchange Group. Total return net of charges, in sterling.

Share class returns calculated using 10am prices, while the Index is calculated close-to-close.

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^{***}IA Japan Sector.

Market environment

The Japanese market capped off a banner year, delivering a fourth quarter of robust single-digit returns. While divergent monetary policy and an unprecedented wave of corporate reforms - marked by surging buybacks, activism, and private equity deals - dominated 2024's narrative, the fourth quarter's spotlight fell on the seismic consolidation wave sweeping through Japan's automotive industry.

Caught between Silicon Valley software and Chinese manufacturing might, Japan's critical auto industry faces an existential threat. In response, Toyota has made an ambitious pledge to achieve a Tesla-matching return-on-equity of 20% - albeit whilst omitting a timeline to achieve this feat - and the country's second and third largest auto makers, Honda and Nissan have unveiled plans to join forces in a last-ditch attempt to remain relevant. The market appeared to endorse these actions, sending shares of all three higher.

Financial stocks maintained their position as 2024's standout performers with another quarter of market-leading returns, complementing the auto sector's surge. The quarter's pricing patterns strongly favoured mega-caps, with the TOPIX 30 delivering returns quadruple that of their mid-cap counterparts, with value outpacing growth. In this environment, the Fund lagged the benchmark in relative performance.

Performance

Our significant underweight in auto makers and megabanks, particularly Toyota and Mitsubishi UFJ Financial Group (MUFG), drove the bulk of our relative underperformance. While acknowledging the recent momentum, we maintain these rallies reflect short-term catalysts rather than fundamental improvements in their structural dynamics. We continue to find more compelling opportunities in other sectors where structural tailwinds remain intact, such as digitalisation and consumer products.

Despite being a key detractor to fund performance during the quarter, Rakuten, Japan's leading digital services platform, has still ended the year with returns more than twice that of the broader market. Our meeting in Tokyo and their earnings release during the quarter has helped reaffirm our conviction in the case: Rakuten posted their first operating profit since 2020, powered by robust fintech momentum and narrowing mobile losses, and they evidenced the embedded value within the ecosystem after selling a stake of Rakuten Card to Mizuho - a

¥165bn transaction for 15% which implies a ¥1.1tn valuation for the cards business alone, a striking figure given the group's total market cap of ¥2tn. Unicharm, a leading absorbent consumer product specialist, weighed on performance as its shares declined following softer China results (which represents 10-15% of sales and operating profits). The company now trades significantly below its historical valuation multiple, presenting an appealing valuation opportunity for a company structurally positioned for demographic growth in adult diapers, and feminine care across Asia.

One of the largest contributors to performance was Topcon, a manufacturer of precision positioning equipment for agricultural, construction and eyecare markets, after its share price effectively doubled on news that the firm had received buyout offers from private equity firms KKR and EQT. Recruit, a leading online recruitment provider that is simplifying the hiring process through their platform 'Indeed' which boasts 330 million unique monthly visitors, was another strong contributor to performance. We met with Chris Hyams, CEO of Indeed in December to discuss how they are balancing monetisation with maintaining the quality of the marketplace experience. Their potential to achieve this balance, from a starting base of a 4% share in a growing global HR tech market, presents significant upside potential. Lastly, Japan's leading online brokerage business, SBI Holdings, was another strong contributor to performance after the shares rallied in late November on speculation of significant gains in their cryptocurrency exposure. The company owns a portion of Ripple Labs, and the exchange BitFlyer, among others.

Notable transactions

During the quarter we participated in the Initial Public Offering (IPO) of Tokyo Metro, the operator of Tokyo's subway system. The hotly awaited IPO raised \$2.3bn, making it Japan's largest offering in six years. With an unbeatable location underpinning its edge, reliable passenger traffic, and a smoothing out of maintenance capex (which spiked ahead of the Tokyo Olympics), Tokyo Metro provides a compounding source of returns for the Fund. We also added to our position in Kansai Paint, which maintains a dominant presence in automotive coatings and leads India's rapidly expanding paint market, Murata Manufacturing, a dominant manufacturer of ceramic components used in smartphones and autos and Kose, a family run premium skincare company, viewing their recent share price weakness as an attractive entry point, given strong fundamentals. These were funded from the a partial reduction to positions in Recruit and

MonotaRo following a period of exceptional performance.

Market Outlook

Investors will not be short of forecasts for the year ahead. Although these may centre around corporate reform and monetary normalisation we will offer just three powerful growth engines that continue to steal our attention: First, Japan's outdated business systems are ripe for AI-driven transformation, offering massive cost-saving potential for innovative disruptors; second, Japanese industry leads in automation and collaborative robotics, positioning it perfectly for the global push toward smart manufacturing; and third, Japanese premium brands are ideally placed to capture the growing affluent consumer class across Asia, particularly in sectors like gaming, beauty, and luxury goods.

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to 31 December 2024

Stock Name	Contribution (%)
Topcon	0.6
SBI Holdings	0.5
Recruit Holdings	0.3
Nintendo	0.3
Mitsubishi Corp	0.3
Shin-etsu Chemical	0.2
SoftBank Group	0.2
Park24	0.2
Sumitomo Mitsui Trust	0.2
Daiichi Sankyo Company	0.1
Rakuten	-0.6
Toyota Motor	-0.6
Mitsubishi UFJ Fin Grp	-0.5
Unicharm	-0.5
Shiseido	-0.4
Eisai	-0.3
Sumitomo Metal Mining	-0.3
Kose Corp.	-0.3
Sumitomo Mitsui Financial Group	-0.3
Calbee	-0.3

One Year to 31 December 2024

Stock Name	Contribution (%)
MS&AD Insurance	1.4
SoftBank Group	1.0
Recruit Holdings	0.7
Sumitomo Mitsui Trust	0.7
Rakuten	0.5
Tsumura	0.5
Topcon Corp	0.5
MonotaRO	0.4
Oriental Land	0.4
Shin-etsu Chemical	0.4
Rohm	-1.1
Hitachi	-0.9
Shiseido	-0.9
Mitsubishi UFJ Fin Grp	-0.7
Kubota	-0.6
Unicharm	-0.6
M3	-0.6
Sumitomo Mitsui Financial Group	-0.6
Mitsubishi Heavy Industries	-0.6
Eisai	-0.5

Source: Revolution, Japan Exchange Group. Baillie Gifford Japanese Fund relative to TOPIX (in sterling).

Some stocks may only have been held for part of the period.

All attribution figures are calculated gross of fees, relative to the Index from stock level up, based on closing prices.

As Attribution is shown relative to the benchmark, not all stocks shown are held in the portfolio. See the List of Holdings section of this report for the stocks held.

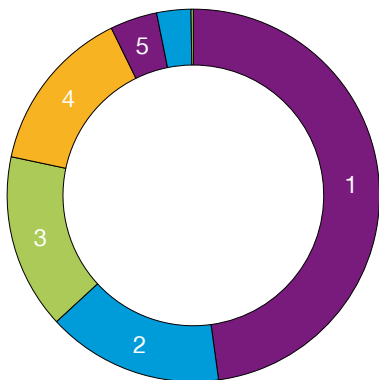
Transactions from 01 October 2024 to 31 December 2024.

New Purchases

Stock Name	Transaction Rationale
Tokyo Metro	Tokyo Metro runs an extensive network of metro stations at the heart of Tokyo. This is an exceptional quality asset that is hard to disrupt. Due to the centrality of its stations' locations, it enjoys better profitability than its peers, creating a very dependable cash flow stream. In an inflationary environment, there is potential for ticket prices to go up, providing an extra leg of growth. It came to the market with a 3.5% dividend yield, which is attractive for such a quality asset. We decided to participate in the IPO.

There were no complete sales during the period.

Sector Exposure



	%
1 Manufacturing	48.0
2 Services	15.4
3 Transport And Communications	15.3
4 Finance & Insurance	14.5
5 Commerce	4.1
6 Real Estate	3.0
7 Cash	-0.2

As well as cash in the bank, the cash balance includes unsettled cash flows arising from both shareholder flows and outstanding trades. Therefore, a negative balance may arise from timing differences between shareholder flows and security trading, and does not necessarily represent a bank overdraft.

Top Ten Holdings

Stock Name	Description of Business	% of Portfolio
SoftBank Group	Telecom operator and technology investor	7.5
Sumitomo Mitsui Trust	Japanese trust bank and investment manager	5.3
Rakuten	Internet retail and financial services	5.0
SBI Holdings	Online financial services	4.2
Nintendo	Gaming consoles & software	3.9
Recruit Holdings	Property, lifestyle and HR media	3.7
Sony	Consumer electronics, films and finance	3.6
GMO Internet	Internet conglomerate	3.3
CyberAgent	Japanese internet advertising and content	3.2
MS&AD Insurance	Japanese insurer	2.7
Total		42.4

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	2	Companies	None	Companies	None
Resolutions	16	Resolutions	None	Resolutions	None

Company Engagement

Engagement Type	Company
Environmental	Sumitomo Metal Mining Co., Ltd.
Social	CyberAgent, Inc., LY Corporation, MIXI, Inc.
Governance	COLOPL, Inc., CyberAgent, Inc., GMO internet group, Inc., LY Corporation, MIXI, Inc., Nidec Corporation, Olympus Corporation, ROHM Co., Ltd.
Strategy	MIXI, Inc.

For further details on company engagement please contact us. You can also find further information on how we integrate environmental, social and governance (ESG) matters into our investment approach, [here](#).

Asset Name	Fund %
SoftBank Group	7.5
Sumitomo Mitsui Trust	5.3
Rakuten	5.0
SBI Holdings	4.2
Nintendo	3.9
Recruit Holdings	3.7
Sony	3.6
GMO Internet	3.3
CyberAgent	3.2
MS&AD Insurance	2.7
FANUC	2.5
Bridgestone	2.4
Japan Exchange Group	2.3
Kao	2.2
Keyence	2.1
Kubota	2.1
Pola Orbis	1.9
MISUMI	1.8
Calbee	1.7
Tsumura	1.7
Sumitomo Metal Mining	1.6
Unicharm	1.5
Topcon	1.4
Murata Manufacturing	1.4
PARK24	1.3
Olympus	1.3
SMC	1.3
MonotaRO	1.3
Systemex	1.3
Eisai	1.3
Kyocera	1.2
Rohm	1.2
Shiseido	1.2
Nippon Paint	1.1
Daikin Industries	1.1
Kansai Paint	1.1
COLOPL	1.0
Kose Corporation	1.0
DMG Mori	1.0
Sugi Holdings	1.0
Tokyo Tatemono	1.0
Wacom	1.0
M3	0.9
MIXI	0.9
Nidec Corporation	0.8
LY Corporation	0.7
Mitsubishi Estate	0.7
Kakaku.com	0.7
freee K.K	0.7

Asset Name	Fund %
Asahi Group	0.6
PeptiDream	0.6
Tokyo Metro	0.5
Pigeon	0.5
Mercari	0.5
Broadleaf	0.5
Nippon Electric Glass	0.5
Nihon M&A	0.4
Bengo4.com	0.3
Digital Garage	0.3
Infomart	0.3
BASE	0.2
Cash	-0.2
Total	100.0

Please note the fund information contained within this document is proprietary information and should be maintained as such and not disseminated. The content is intended for information purposes only and should not be disclosed to other third parties or used for the purposes of market timing or seeking to gain an unfair advantage.

Share Class	Share Class Inception Date	ISIN	SEDOL	Annual Management Fee (%)	Ongoing Charge Figure (%)
Class B-Acc	02 August 1999	GB0006011133	0601113	0.60	0.64
Class B-Inc	08 October 1984	GB0006010945	0601094	0.60	0.64

The table displays the primary shares classes. Other share classes may be available for those investors who have a separate arrangement. Charges will reduce the value of your investment. Please refer to the Prospectus and Key Investor Information Document for further details. The Ongoing Charges Figure ('OCF') may be lower than previous declarations as a result of a revision to how the indirect fees associated with closed-ended investment companies need to be shown. This does not necessarily mean that fund expenses have gone down rather that we have reverted to how they have been calculated until 30 June 2022 to reflect the revised Investment Association's Guidance on Disclosure of Fund Charges and Costs (July 2020, updated January 2022, revised November 2023). A more detailed Costs and Charges disclosure is available upon request.

<p>MSCI</p>	<p>Source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indexes or any securities or financial products. This report is not approved, endorsed, reviewed or produced by MSCI. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.</p>
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<p>TOPIX</p>	<p>The TOPIX Index Value and the TOPIX Marks are subject to the proprietary rights owned by JPX Market Innovation & Research, Inc. or affiliates of JPX Market Innovation & Research, Inc. (hereinafter collectively referred to as "JPX") and JPX owns all rights and know-how relating to TOPIX such as calculation, publication and use of the TOPIX Index Value and relating to the TOPIX Marks. JPX shall not be liable for the miscalculation, incorrect publication, delayed or interrupted publication of the TOPIX Index Value.</p>
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Additional Geographical Location Information

Israel: This Report, as well as investment in the Fund described herein, is directed at and intended for Investors that fall within at least one category in each of: (1) the First Schedule of the Israeli Securities Law, 1968 (“Sophisticated Investors”); and (2) the First Schedule of the Investment Advice Law (“Qualified Clients”).

The Fund’s share price can be volatile due to movements in the prices of the underlying holdings and the basis on which the Fund is priced.

As with any investment, the clients’ capital is at risk. Past performance is not a guide to future returns.

Throughout the report all figures are rounded, so any totals may not sum. Not all stocks mentioned may be held by the portfolio.

All information as at 31 December 2024 and source is Baillie Gifford & Co unless otherwise stated.

