

## Baillie Gifford Japanese Fund

30 June 2024

### About Baillie Gifford

<b>Philosophy</b>	Long-term investment horizon A growth bias Bottom-up portfolio construction High active share
<b>Partnership</b>	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	£1470.5m
IA Sector	Japan
Active Share	83%*
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 (%)	-2.5	6.0	-2.9	2.5
Index (%)*	-4.4	13.5	5.5	6.6
Target (%)**	-4.0	15.2	7.1	8.2
Sector Average (%)***	-3.5	10.6	3.3	6.1

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

	30/06/19- 30/06/20	30/06/20- 30/06/21	30/06/21- 30/06/22	30/06/22- 30/06/23	30/06/23- 30/06/24
Class B-Acc (%)	4.7	18.0	-18.7	6.1	6.0
Index (%)*	6.1	10.7	-8.4	12.9	13.5
Target (%)**	7.7	12.4	-7.0	14.6	15.2
Sector Average (%)***	7.8	13.2	-11.4	12.7	10.6

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

Enthusiasm for Japanese equities continued unabated during the quarter, with the market posting its highest level since 1990. During this period the Fund outperformed the benchmark, evidencing a diversification of returns beyond traditional sectors like banking, automotive, and resources.

New market highs appear increasingly juxtaposed with an economy facing inescapable demographic headwinds and a huge government debt burden, which could constrain further top-line growth. As such, we question whether the main mechanism for share price gains, improving profit margins, is sustainable. For example, during this quarter's earnings season Tokyo Stock Exchange (TSE) Prime members saw net profits rise by over 20% year-on-year, largely driven by autos and related businesses. This is well in excess of their long-term average and raises the question as to whether, without exogenous stimulants (Yen weakness, improving global economic expectations), the market's main cyclical constituents can maintain this momentum. We believe more sustainable sources of earnings growth lie in examples of structural growth opportunities such as digitalisation, automation and premiumisation. Many of which are now beginning to post strong share price performance.

## Performance

MS&AD Insurance, Softbank and Sumitomo Mitsui Trust Holdings were some of the strongest contributors to performance during the quarter.

MS&AD Insurance is a non-life insurance company, one of three operating within a highly regulated oligopolistic market, allowing for the profitable pricing or risk and correspondingly low combined ratios. The company also has a large book of equity holdings. Over the quarter the company made renewed promises to reduce its cross-shareholdings and announced a share buyback of up to 8.2% or ¥190bn, both of which were well received by the market.

Softbank is a Japanese investment holding company, with a variety of private and listed investments. Its holding in chip architecture company Arm drove most of the outperformance this quarter, with the latter reporting record year-on-year revenue growth of 47% for the quarter. Softbank is also benefiting from investor enthusiasm around Artificial Intelligence (AI), with

founder Masayoshi Son announcing at the June AGM that furthering artificial super intelligence (ASI) is what he was "born to do. The group now is committing \$9bn a year to AI-related investments. We see this is a much better use of the company's cash than share buybacks, something activist investor Elliott has called for after recently building up a \$2bn stake.

Sumitomo Mitsui Trust Holdings, is a well-run asset manager which operates in a higher growth, savings-related part of the financial industry. Over the quarter the share price jumped following the news that it plans to increase its annual dividend by 23% as well as offering an additional dividend to commemorate SMTH's 100th anniversary. The company is also making notable progress in reducing its cross-shareholdings which has had a positive impact on profitability. Overall, there are multiple levers for the firm to pull to increase returns if inflation takes hold, from a repricing of its mortgage book to higher fees in its advisory businesses.

Detractors to performance included GMO Internet, Freee and CyberAgent.

GMO Internet is the country's top provider of domain name registrations and hosting services, and also has a strong position in e-commerce website hosting and transaction processing. The share price was weak for the quarter despite operating profit growth of 31% year-on-year for its core internet infrastructure business, which comfortably beat analyst expectations. Similar to Softbank, it's market cap is lower than the total value of its holdings in its many subsidiaries. This share price weakness reflects the difficulty to understand its various parts for many investors, as well as growth internet companies having recently been out of favour by the wider market.

Freee is a Japanese cloud-based accounting and Human Resources (HR) software provider. Despite robust sales growth of 31% for the latest quarter, investors reacted poorly to a slight slowing in customer acquisition and enhanced competition in the space. We think the market fails to understand the massive opportunity set on offer: they have around 300,000 out of a total addressable market of around 6 million Small and Medium Enterprises (SMEs) in Japan, and are supported by a strong tailwind as these SMEs steadily move away from on-premise to cloud-based solutions. We think Freee also has a particular edge over competitors in that their products combine a best-in-class user experience – easy to install and use with seamless

interactions between different functions – with incredibly reasonable price points. Moreover, the business' capital light nature and high incremental margins should result in excellent financial characteristics at scale.

CyberAgent, the Japanese internet conglomerate, showcased strong fundamentals, with the latest quarter's operating profit surpassing expectations at 12% year-on-year growth. This was driven by the firm's gaming arm, notably new title *Granblue Fantasy: Relink* which has taken the console world by storm. Its weak share price therefore reflects investors' short-term fears that new games sales will fail to maintain momentum, and that increased content spend on hosting Euro-2024 games will eat into profitability. In contrast, we believe the firm's true value can only be unlocked over the long-term: it stems from IP being leveraged across the business, creating a virtuous fly wheel where gaming and streaming are mutually supportive.

### Notable Transactions

We have decided to take a holding in **Eisai**, an established Japanese pharmaceuticals company, based on our excitement around its novel Alzheimer's drug which has already been approved by the US FDA. We have also taken a new holding in **Nippon Paint**, the Japanese paint products manufacturer. This is a well-run business which exposure to many high growth areas including China and several other emerging Asian markets.

We funded these through two sales. The first was **Denso**, the largest car parts maker in Japan, on concerns about rising competition and **Cookpad**, the online recipe website company, which has struggled in recent years. We think the development of AI presents an existential challenge to the nature of the business itself and therefore decided to sell.

### Market Outlook

Japan now stands on the brink of a remarkable investment renaissance having shed many of the negative connotations attached to its past. The country is no longer simply a place to trade, but a place more conducive to invest. Engagement is rising, returns are improving, and valuations remain attractive.

The shift in corporate and consumer mindsets, favourable policy developments, and a growing interest from foreign investors have triggered greater market dynamism and fluidity than we've ever witnessed before. Over the long-term we think this interest will focus on the innovative and sustainable sectors of the future: in digitalisation, automation (where a demographically triggered uptake is taking place) and healthcare (specifically the diagnostics and treatment of ailments related to a globally aging population). These are just some of the exciting opportunities captured within a Fund that, combined, is expected to deliver over 2x earnings growth than the market going forward.

## Stock Level Attribution

### Top and Bottom Ten Contributors to Relative Performance

#### Quarter to 30 June 2024

Stock Name	Contribution (%)
SoftBank Corp	0.8
Toyota Motor	0.8
MS&AD	0.7
Misumi	0.4
Sumitomo	0.4
Recruit Holdings	0.3
Tokyo Electron	0.3
Kose Corporation	0.3
Kao	0.2
NTT	0.2
Hitachi	-0.5
GMO Internet	-0.4
CyberAgent	-0.4
M3	-0.3
Tokio Marine Holdings Inc	-0.3
Sumitomo Mitsui Financial	-0.3
Japan Exchange Group	-0.3
freee	-0.3
Rohm	-0.2
Itochu Corp	-0.2

#### One Year to 30 June 2024

Stock Name	Contribution (%)
MS&AD	1.6
SoftBank Corp	1.3
Rakuten	1.0
SBI Holdings	0.7
Sumitomo	0.7
DMG Mori	0.7
Recruit Holdings	0.5
Daikin Industries	0.4
NTT	0.4
Japan Exchange Group	0.4
Rohm	-1.1
Pola Orbis	-1.1
Shiseido	-1.1
GMO Internet	-1.0
Hitachi	-0.9
Fanuc	-0.8
M3	-0.7
Mitsubishi UFJ Fin Grp	-0.7
Toyota Motor	-0.6
Mercari	-0.6

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 April 2024 to 30 June 2024.

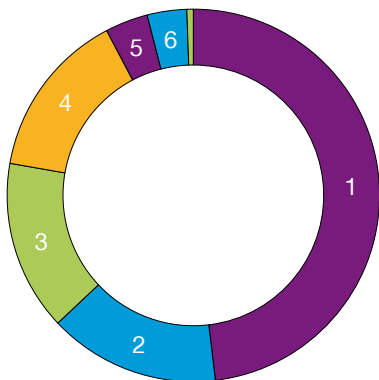
### New Purchases

Stock Name	Transaction Rationale
Eisai	We have decided to take a holding in Eisai, an established Japanese pharmaceuticals company, based on our excitement around its novel Alzheimer's disease treatment. Alzheimer's is a leading cause of death globally (for example, in the UK it accounts for 11.5% deaths annually) but it has proved difficult to develop effective treatment. However, Eisai's drug Leqembi acts to clear amyloid beta plaques in the brain and has been shown to slow progression significantly. It has already been approved by the US Food and Drug Administrations (FDA). Medicare actuarial estimates have aligned 3.5bn USD to treatment by 2025. As diagnostics improve and healthcare infrastructure ramps up to deliver this treatment we believe Eisai stands to benefit significantly.
Kansai Paint	Kansai Paint manufactures and sells paint in Japan, India, Africa and the rest of Asia. The company was an early supplier to Japanese car makers in the 1960s, and it has used its scale in auto paint to build up operations in domestic and industrial paint. The Indian home paint opportunity is particularly attractive. The stock is undervalued relative to its growth potential and relative to peers, and so we have taken a holding for the Fund.
Nippon Paint	We have taken a new holding in Nippon Paint, the Japanese paint products manufacturer. The business has robust financial characteristics, local scale, powerful brands and strong pricing power. It is exposed to many growth markets through its subsidiary Nipsea, including China and several other emerging Asian markets. Led by a management team with a strong track record of success, the company has already become the leading paint business in China and here there are opportunities for further market consolidation. Over the long term we have confidence in the growth outlook for Nippon Paint. In the near term, China's property market slowdown and challenging macroeconomic environment have created the opportunity to buy a high-quality growth business at an attractive valuation.

### Complete Sales

Stock Name	Transaction Rationale
Cookpad	Cookpad is an online recipe website company. Despite having had initial success in the domestic market, the company has struggled in recent years both to sustain that success and to expand internationally, with sales and profits declining. While we have been prepared to be patient given the company's robust balance sheet, the world has continued to move on and we believe that the chances of eventual success have diminished. More recently, the development of Artificial Intelligence (AI) presents a further challenge to the very conception of a recipe aggregator since users can use chatbots to derive novel recipes from a list of ingredients. Ultimately we concluded that we had made a mistake and decided to sell the shares.
Denso	Denso is the largest car parts maker in Japan, with close ties to the Toyota group. The shares have performed strongly in recent years as the margin has improved through a mixture of self-help and a weak yen. However, in the longer term, we have concerns about the Toyota group's positioning in battery electric vehicles amid rising competition from Tesla and various Chinese players. On balance we decided that we could do better elsewhere.

## Sector Exposure



		%
1	Manufacturing	48.1
2	Transport And Communications	14.9
3	Finance & Insurance	14.8
4	Services	14.5
5	Commerce	3.7
6	Real Estate	3.4
7	Cash	0.6

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	8.0
Sumitomo Mitsui Trust	Japanese trust bank and investment manager	5.0
Rakuten	Internet retail and financial services	4.6
SBI Holdings	Online financial services	4.1
Nintendo	Gaming consoles & software	3.4
Recruit Holdings	Property, lifestyle and HR media	3.2
GMO Internet	Internet conglomerate	3.0
CyberAgent	Japanese internet advertising and content	2.8
Sony	Consumer electronics, films and finance	2.8
MS&AD Insurance	Japanese insurer	2.8
<b>Total</b>		<b>39.7</b>

Voting Activity

Votes Cast in Favour	Votes Cast Against	Votes Abstained/Withheld
Companies 35	Companies 2	Companies 2
Resolutions 399	Resolutions 2	Resolutions 2

Company Engagement

Engagement Type	Company
Environmental	Bridgestone Corporation, Nintendo Co., Ltd.
Social	Nihon M&A Center Holdings Inc.
Governance	Bengo4.com, Inc., Fanuc Corporation, Kyocera Corporation, MISUMI Group Inc., MS&AD Insurance Group Holdings, Inc., Murata Manufacturing Co., Ltd., Nidec Corporation, Nihon M&A Center Holdings Inc., Nintendo Co., Ltd., Recruit Holdings Co., Ltd., SBI Holdings, Inc., Sysmex Corporation
Strategy	Nintendo Co., Ltd.

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	8.0
Sumitomo Mitsui Trust	5.0
Rakuten	4.6
SBI Holdings	4.1
Nintendo	3.4
Recruit Holdings	3.2
GMO Internet	3.0
CyberAgent	2.8
Sony	2.8
MS&AD Insurance	2.8
Bridgestone	2.7
FANUC	2.5
Japan Exchange Group	2.5
Kubota	2.5
Shiseido	2.2
Keyence	2.2
Kao	2.1
MISUMI	1.8
DMG Mori	1.8
Sumitomo Metal Mining	1.8
Eisai	1.8
Unicharm	1.7
Calbee	1.7
Pola Orbis	1.7
Rohm	1.6
Murata Manufacturing	1.4
Tsumura	1.4
SMC	1.4
Kyocera	1.4
Tokyo Tatemono	1.3
Kose Corporation	1.3
COLOPL	1.3
MIXI	1.1
Systemex	1.1
Olympus	1.1
Nippon Paint	1.0
Nidec Corporation	1.0
MonotaRO	1.0
M3	1.0
Wacom	1.0
PARK24	0.9
Topcon	0.9
Sugi Holdings	0.9
Mitsubishi Estate	0.8
Asahi Group	0.7
LY Corporation	0.7
Kakaku.com	0.6
Nippon Electric Glass	0.6
Nihon M&A	0.6

Asset Name	Fund %
freee K.K	0.6
Mercari	0.5
Pigeon	0.5
PeptiDream	0.5
Broadleaf	0.5
Kyoto Financial Group, Inc.	0.4
Iida	0.4
Bengo4.com	0.4
Infomart	0.2
Digital Garage	0.2
Kansai Paint	0.2
BASE	0.2
Cash	0.6
<b>Total</b>	<b>100.0</b>

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.

TOPIX

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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 30 June 2024 and source is Baillie Gifford & Co unless otherwise stated.

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