

Baillie Gifford Japanese Income Growth Fund

30 September 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

The Fund applies the same well-tested growth investing philosophy and process that we use across all of our Japanese investments. For the Japanese Income Growth Fund, we combine this approach with a focus on companies that are improving returns on capital and balance sheet efficiency, to generate a portfolio of growth companies with a yield orientation. In this way we hope to generate strong long-term total returns as well as provide those investors that require it with a higher than market yield along the way. The Fund balances current income generation with growing that income over time, and invests across the market cap spectrum.

Fund Facts

Fund Launch Date	04 July 2016
Fund Size	£324.4m
IA Sector	Japan
Active Share	85%*
Current Annual Turnover	6%
Current number of stocks	57
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
Karen See	12

*Partner

Fund Objective

To outperform (after deduction of costs) the TOPIX, as stated in sterling, by at least 1% per annum over rolling five-year periods through a combination of income and capital growth whilst maintaining a portfolio yield higher than the TOPIX.

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-Inc (%)	1.7	11.1	-1.2	2.0
Index (%)*	0.8	10.7	3.3	5.5
Target (%)**	1.1	11.8	4.3	6.5
Sector Average (%)***	1.4	11.1	1.5	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% per annum over rolling five-year periods (through a combination of income and capital growth).

***IA Japan Sector.

Discrete Performance

	30/09/19- 30/09/20	30/09/20- 30/09/21	30/09/21- 30/09/22	30/09/22- 30/09/23	30/09/23- 30/09/24
Class B-Inc (%)	3.2	11.0	-13.2	0.0	11.1
Index (%)*	2.4	15.6	-13.5	15.1	10.7
Target (%)**	3.4	16.8	-12.7	16.3	11.8
Sector Average (%)***	5.6	16.7	-15.4	11.3	11.1

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

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Market environment

Japan's economic trajectory continued to diverge from other major markets during the quarter, as its central bank persisted with a tighter monetary policy (to arrest recent inflationary pressures) in contrast to an accelerated move towards more accommodative measures in both the US and China (in response to softer economic data). The Yen balanced out this equation by gaining significant ground against the dollar. Large cap cyclicals, which had relied on strong global economic growth and a weak currency up to this point, suffered the biggest fallout from this reversal. This change in direction helped the portfolio outperform the index during the quarter. It also bodes well for longer-term returns, as the weighting towards cyclicals has been reduced in recent years, in favour of less-economically sensitive stocks underpinned by structural growth trends.

Politics – from attempted assassinations (Trump), retirements (Biden) and surprises (Shigeru Ishiba) – also played a part in unsettling markets during the summer. The latter appeared to upset market participants who had expected Bank of Japan easing advocate Sanae Takaichi to succeed Kishida as the Liberal Democratic Party President. The success of Shigeru Ishiba, dubbed 'Anti-Abenomics' and a fan of fiscal reconstruction, unfortunately injected further volatility into the final days of the quarter. We anticipate that these concerns will become insignificant in the long run, considering the substantial structural growth opportunities that continue to emerge in Japan.

Performance

Overweight positions in Seria, Japan's leading 100-yen stores and MonotaRo a B2B online platform for maintenance repair and operational products - and a nil holding in Toyota - were significant drivers of relative returns during the quarter.

Both Seria and MonotaRo have demonstrated impressive operational success which appears to be silencing their critics. Seria's "secret sauce" is a proprietary real-time POS system that monitors store sales and inventory levels, enabling them to automate restocking and replacements. This efficiency has generated margins that are twice the industry average and returns on invested capital of over 20%.; creating an edge that has allowed them to cushion the impact of inflation and take market share as others have exited. Robust same-store-sales and 26% growth in quarterly Operating Profit – thanks to the recent

introduction of a self-checkout system and lower SG&A (selling, general, and administrative) costs – have helped recent share price performance. MonotaRo's results also helped allay concerns of slowing growth after the company announced double digit first half sales, driven by a 29% increase in sales to larger enterprises. We believe further upside lies ahead as MonotaRo leads the shift online for this outdated and inefficient small and medium-sized enterprise (SME)-populated market.

Toyota's share price weakness can be attributed to YEN appreciation and concerns over slowing auto sales in key markets like the U.S. and China.

The Funds detractors include DMG Mori, Softbank Group and SBI Holdings. DMG Mori is a leading global manufacturer of machine tools known for its precision engineering. Although the company is strategically shifting towards more-structurally supported growth areas (prioritising the sale of its five-axis machines with integrated software solutions) its end-markets remain cyclical which can impact near term earnings, including most recently, where below-consensus quarterly results knocked sentiment towards the stock. The sell-off of semiconductor related businesses during the quarter has weighed heavily on Softbank, due to ARM (which is the largest asset within the group), and SBI Holdings, which has various semiconductor-related business initiatives.

Notable Transactions

There were no new purchases or sales during the quarter.

Market Outlook

Evidence of shifting market dynamics presents a compelling case for a portfolio that is more geared towards structural growth. As cyclical tailwinds subside, structural growth – in areas such as digitalisation, automation and healthcare – should outpace the broader market performance. As these structural shifts become entrenched, investors who align their portfolios with these long-term trends will benefit from sustained growth trajectories that transcend short-term market fluctuations.

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to 30 September 2024

Stock Name	Contribution (%)
Toyota Motor	0.8
Seria	0.6
MonotaRO	0.6
Calbee Inc	0.5
Tokyo Electron	0.4
Pola Orbis Holdings Inc	0.4
Park24 Co Ltd	0.4
GMO Internet	0.3
Rakuten	0.3
Kakaku.com	0.3
DMG Mori	-0.9
SBI Holdings	-0.6
SoftBank Group	-0.6
Hitachi	-0.2
Mitsubishi Heavy Industries	-0.2
Tokio Marine Holdings Inc	-0.2
Shiseido	-0.2
Eisai	-0.2
Sony	-0.2
Kyoto Financial Group Inc	-0.2

One Year to 30 September 2024

Stock Name	Contribution (%)
MS&AD Insurance	1.6
Seria	0.7
Toyota Motor	0.7
Tokio Marine Holdings Inc	0.7
MonotaRO	0.6
Kakaku.com	0.4
Rakuten	0.4
NTT	0.4
Benefit One	0.4
DMG Mori	0.4
Hitachi	-1.1
Pola Orbis	-0.8
Shiseido	-0.8
Recruit Holdings	-0.7
Mitsubishi Heavy Industries	-0.5
Kubota	-0.5
Milbon	-0.4
Infomart Corp	-0.4
Industrial & Infrastructure Fund	-0.4
Bridgestone	-0.4

Source: Revolution, Japan Exchange Group. Baillie Gifford Japanese Income Growth 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.

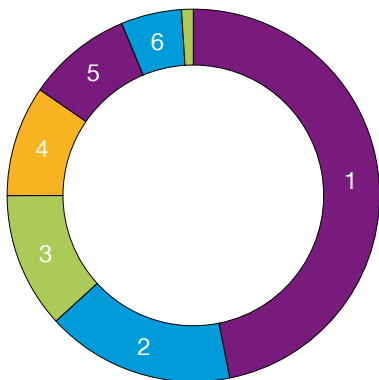
As Attribution is shown relative to the benchmark, not all stocks shown are held in the portfolio. See the List of Holdings section of this report for the stocks held.

Transactions from 01 July 2024 to 30 September 2024.

There were no new purchases during the period.

There were no complete sales during the period.

Sector Exposure



		%
1	Manufacturing	46.9
2	Finance & Insurance	16.3
3	Transport And Communications	11.8
4	Services	9.6
5	Commerce	9.1
6	Real Estate	5.3
7	Cash	1.0

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
GMO Internet	Internet conglomerate	4.2
SoftBank Group	Telecom operator and technology investor	3.9
MS&AD Insurance	Japanese insurer	3.8
Tokio Marine Holdings Inc	Offers property and life insurance	3.7
Sumitomo Mitsui Trust	Japanese trust bank and investment manager	3.7
SBI Holdings	Online financial services	3.5
Calbee	Branded snack foods	2.8
DMG Mori	Machine tool manufacturer	2.6
PARK24	Parking, car hire and sharing	2.5
FANUC	Robotics manufacturer	2.5
Total		33.4

Voting Activity

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

Company Engagement

Engagement Type	Company
Environmental	Kakaku.com, Inc., Kubota Corporation, MS&AD Insurance Group Holdings, Inc., Sumitomo Metal Mining Co., Ltd., Tokio Marine Holdings, Inc.
Governance	Calbee, Inc., DENSO Corporation, GMO internet group, Inc., Kakaku.com, Inc., Kubota Corporation, M3, Inc., MIXI, Inc., MS&AD Insurance Group Holdings, Inc., Mitsui & Co., Ltd., Nakanishi Inc., Olympus Corporation, Shiseido Company, Limited, SoftBank Corp., Sugi Holdings Co.,Ltd., Sumitomo Metal Mining Co., Ltd., Tokio Marine Holdings, Inc.
Strategy	GMO internet group, Inc., Nakanishi Inc., Olympus Corporation

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 %	Asset Name	Fund %
GMO Internet	4.2	LY Corporation	0.8
SoftBank Group	3.9	Nihon M&A	0.8
MS&AD Insurance	3.8	Nippon Electric Glass	0.7
Tokio Marine Holdings Inc	3.7	COLOPL	0.7
Sumitomo Mitsui Trust	3.7	Nidec Corporation	0.7
SBI Holdings	3.5	Mitsui	0.7
Calbee	2.8	Sawai Pharmaceutical	0.4
DMG Mori	2.6	Gree	0.2
PARK24	2.5	Cash	1.0
FANUC	2.5	Total	100.0
Seria	2.4		
Nintendo	2.4		
Pola Orbis	2.4		
Kubota	2.4		
Bridgestone	2.3		
Kao	2.3		
Rakuten	2.3		
MonotaRO	2.3		
Wacom	2.2		
MIXI	2.2		
Unicharm	2.1		
Olympus	1.9		
Murata Manufacturing	1.8		
Systemex	1.8		
Sumitomo Metal Mining	1.8		
Shiseido	1.7		
Itochu Corp.	1.7		
Industrial & Infrastructure Fund	1.6		
Kakaku.com	1.5		
Nippon Paint	1.4		
Pigeon	1.4		
Eisai	1.3		
Sato Holdings	1.3		
Nakanishi	1.2		
OSG	1.2		
Sugi Holdings	1.2		
Tokyo Tatemono	1.1		
DENSO	1.1		
Kyocera	1.0		
Milbon	1.0		
CyberAgent	1.0		
M3	1.0		
Infomart	1.0		
SoftBank Corp	1.0		
Broadleaf	1.0		
SMC	0.9		
MISUMI	0.9		
Japan Exchange Group	0.8		
Kyoto Financial Group, Inc.	0.8		

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Share Class	Share Class Inception Date	ISIN	SEDOL	Annual Management Fee (%)	Ongoing Charge Figure (%)
Class B-Acc	04 July 2016	GB00BYZJQH88	BYZJQH8	0.60	0.64
Class B-Inc	04 July 2016	GB00BYZJQG71	BYZJQG7	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 September 2024 and source is Baillie Gifford & Co unless otherwise stated.

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