

Baillie Gifford Japanese Income Growth 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

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	£310.7m
IA Sector	Japan
Active Share	85%*
Current Annual Turnover	6%
Current number of stocks	59
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 (%)	-4.0	2.3	-1.2	1.6
Index (%)*	2.8	10.0	6.1	5.9
Target (%)**	3.0	11.0	7.2	7.0
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% per annum over rolling five-year periods (through a combination of income and capital growth).

***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-Inc (%)	11.6	0.8	-6.9	1.2	2.3
Index (%)*	9.5	2.0	-4.1	13.3	10.0
Target (%)**	10.6	3.0	-3.2	14.4	11.1
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.

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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 portfolio 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 elsewhere where structural tailwinds remain intact.

A large relative position in Seria, which operates a leading chain of 100-yen stores, was one of the biggest detractors to performance. Although the company printed strong quarterly numbers, the share price fell in response to the company's more conservative outlook for the second half. The inflationary environment poses risks for Seria and the wider industry, given the 100-yen product price ceiling that discount stores operate. However, we remain confident that this will provide a land-grab opportunity for Seria in the long term; indeed, their ability to take market share from competitors such as Cando and Watts during the quarter was encouraging. Unicharm, a leading absorbent consumer product specialist, also 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 Park24, a parking and mobility solutions company. Strong full year results, exceeding pre-Covid levels with higher profitability, and a new mid-term plan which contained a particularly bullish shareholder returns policy was well received by the market, sending the shares up over 20% in December. 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. A zero holding in semiconductor-related businesses such as Shin Etsu and Tokyo Electron, and trading company Mitsubishi also contributed to performance.

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 portfolio. We also took new positions in Gree, an entrepreneurial gaming company with upside optionality underwritten by a significant net cash position, and GMO Payment Gateway, Japan's dominant provider of payment infrastructure, well placed for the online and offline shift to cashless payments. These were funded from a reduction in GMO Internet, the parent company of GMO Payment Gateway.

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 (%)
SBI Holdings	0.5
Park24	0.5
Mitsubishi Corp	0.3
Shin-etsu Chemical	0.2
Keyence	0.2
Nintendo	0.2
Daiichi Sankyo Company	0.1
MonotaRO	0.1
Tokyo Electron	0.1
Tokyo Metro	0.1
Toyota Motor	-0.6
Seria	-0.6
Unicharm	-0.5
Mitsubishi UFJ Fin Grp	-0.5
DMG Mori	-0.5
Shiseido	-0.5
Calbee	-0.4
Recruit Holdings	-0.4
Sony	-0.4
Sumitomo Metal Mining	-0.3

One Year to 31 December 2024

Stock Name	Contribution (%)
MS&AD Insurance	1.6
Tokio Marine	0.8
MonotaRO	0.8
Sumitomo Mitsui Trust	0.6
SoftBank Group	0.4
Oriental Land	0.4
Shin-etsu Chemical	0.4
Lasertec	0.3
NTT	0.3
Tokyo Electron	0.3
Hitachi	-0.9
Shiseido	-0.8
Infomart	-0.8
Recruit Holdings	-0.8
Unicharm	-0.7
Mitsubishi UFJ Fin Grp	-0.7
Kubota	-0.6
Pola Orbis	-0.6
Sumitomo Mitsui Financial Group	-0.6
Mitsubishi Heavy Industries	-0.6

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.

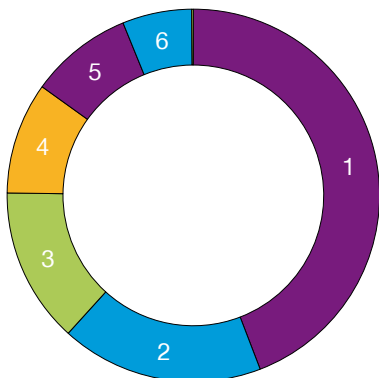
Transactions from 01 October 2024 to 31 December 2024.

New Purchases

Stock Name	Transaction Rationale
GMO Payment Gateway	GMO Payment Gateway (GMOPG) is Japan's leading infrastructure provider for cashless payments. Its core service involves facilitating online transactions by processing payments and ensuring security. It provides these services primarily to medium and large companies, and local government authorities. GMOPG also offers services to small and medium-sized enterprises and payment processing for in-person purchases through its subsidiaries. Japan lags many other developed markets in the penetration of online payments. 60% of Japan's face-to-face transactions are made with cash, and e-commerce represents just 14% of total retail sales. We therefore believe that GMOPG is poised to benefit from this shifting structural trend. We also expect to see the expansion of online payments into services like travel tickets, household bills, and insurance. We believe GMOPG's diversified offering, scale, and strategic acquisitions to strengthen profit generation underscore its proactive approach to growth and market expansion. The shares have de-rated significantly from a few years ago on concerns around slowing growth which we believe to be cyclical in nature. Given the large structural growth opportunity and an attractive starting point in terms valuation, we decided to take a holding.
Gree	Gree, the mobile gaming company, has gone through a period of difficult and falling earnings over the past several years. However, we think that there remains a significant business opportunity. The company has several new games under development, each of which has the potential to drive earnings forward. There is also very good alignment with the talented founder, Mr Tanaka, owning approximately half of the company. Finally, the entire market cap of the company is covered by net cash on the balance sheet. Therefore we believe that this is a highly asymmetric situation where there is the potential for significant upside but with the downside well protected so decided to take a holding.
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	44.3
2	Finance & Insurance	17.6
3	Transport And Communications	13.5
4	Services	9.7
5	Commerce	9.0
6	Real Estate	6.0
7	Cash	-0.1

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
SBI Holdings	Online financial services	4.3
SoftBank Group	Telecom operator and technology investor	4.3
Tokio Marine Holdings Inc	Offers property and life insurance	4.1
Sumitomo Mitsui Trust	Japanese trust bank and investment manager	4.1
MS&AD Insurance	Japanese insurer	3.9
GMO Internet	Internet conglomerate	3.7
PARK24	Parking, car hire and sharing	3.2
Nintendo	Gaming consoles & software	2.9
MonotaRO	Online business supplies	2.6
Calbee	Branded snack foods	2.5
Total		35.7

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	3	Companies	None	Companies	None
Resolutions	23	Resolutions	None	Resolutions	None

Company Engagement

Engagement Type	Company
Environmental	Seria Co., Ltd., Sumitomo Metal Mining Co., Ltd.
Social	CyberAgent, Inc., LY Corporation, MIXI, Inc.
Governance	COLOPL, Inc., CyberAgent, Inc., GMO Payment Gateway, Inc., GMO internet group, Inc., LY Corporation, MIXI, Inc., Nidec Corporation, Olympus Corporation, Seria 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 %	Asset Name	Fund %
SBI Holdings	4.3	Nihon M&A	0.8
SoftBank Group	4.3	Japan Exchange Group	0.8
Tokio Marine Holdings Inc	4.1	Nippon Electric Glass	0.7
Sumitomo Mitsui Trust	4.1	Mitsui	0.7
MS&AD Insurance	3.9	Nidec Corporation	0.7
GMO Internet	3.7	COLOPL	0.7
PARK24	3.2	Tokyo Metro	0.6
Nintendo	2.9	Gree	0.5
MonotaRO	2.6	Sawai Pharmaceutical	0.4
Calbee	2.5	Kyoto Financial Group, Inc.	0.4
FANUC	2.5	Cash	-0.1
MIXI	2.4	Total	100.0
Pola Orbis	2.3		
Wacom	2.3		
Bridgestone	2.3		
DMG Mori	2.2		
Kubota	2.1		
Rakuten	2.1		
Kao	2.1		
Seria	2.0		
Systemex	1.9		
Itochu Corp.	1.8		
Murata Manufacturing	1.7		
Olympus	1.7		
Unicharm	1.6		
Industrial & Infrastructure Fund	1.6		
Sumitomo Metal Mining	1.5		
Kakaku.com	1.4		
Sato Holdings	1.4		
Nippon Paint	1.3		
Tokyo Tatemono	1.3		
Shiseido	1.3		
Pigeon	1.2		
Milbon	1.2		
DENSO	1.1		
OSG	1.1		
Nakanishi	1.1		
CyberAgent	1.1		
Sugi Holdings	1.1		
Eisai	1.1		
SoftBank Corp	1.1		
Kyocera	1.0		
Broadleaf	1.0		
M3	1.0		
Infomart	1.0		
GMO Payment Gateway	0.9		
SMC	0.9		
MISUMI	0.9		
LY Corporation	0.8		

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	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.

MSCI	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.
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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.

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