Baillie Gifford™

Baillie Gifford Japanese Smaller Companies Fund

30 June 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

We invest in attractively valued smaller companies that we believe offer good growth opportunities. Growth may come from innovative business models, disrupting traditional Japanese business practises, or market opportunities such as growth by Japanese companies outside Japan.

Fund Facts

Fund Launch Date	01 April 1983
Fund Size	£166.1m
IA Sector	Japan
Active Share	96%*
Current Annual Turnover	18%
Current number of stocks	70
Stocks (guideline range)	40-80

*Relative to MSCI Japan Small Cap Index (in sterling). Source: Baillie Gifford & Co, MSCI.

Fund Manager

Name	Years' Experience
Praveen Kumar	16

Fund Objective

To outperform (after deduction of costs) the MSCI Japan Small Cap Index, 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 (%)	-9.3	-17.0	-17.8	-7.3
Index (%)*	-5.8	7.5	1.3	3.4
Target (%)**	-5.4	9.2	2.9	5.0
Sector Average (%)***	-3.5	10.6	3.3	6.1

Source: FE, Revolution, MSCI. 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.
*MSCI Japan Small Cap Index (in sterling).
**MSCI Japan Small Cap Index (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 (%)	10.8	10.9	-34.2	1.7	-17.0
Index (%)*	4.6	8.8	-10.4	8.0	7.5
Target (%)**	6.2	10.4	-9.0	9.6	9.2
Sector Average (%)***	7.8	13.2	-11.4	12.7	10.6

Source: FE, Revolution, MSCI. 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

Over the last 12 months, there has been much excitement about Japanese equities, but it has not been shared equally across the corporate landscape. Instead, it has been concentrated within cyclical sectors. A post Covid-19 economic recovery, weak yen, corporate reform initiatives, and the prospect of rising interest rates have coalesced to create a strong tailwind for cyclical—typically value-orientated companies, such as autos, banks, and resources. Small caps, and in particular small-cap growth stocks in which this Fund invests, have been largely ignored.

A flood of foreign capital has added to that trend, by flowing into Japan's largest and most liquid cyclical companies, for example, Toyota Motor. This has driven a performance wedge between small and large businesses, with the latter outperforming by 25% cumulatively over the past 3 years. Within the small-cap space, we have also witnessed a decoupling of performance between value and growth as the prospect of rising rates has caused a de-rating of high-growth businesses. Small-cap value has outperformed small-cap growth by 25% cumulatively over the same period.

This backdrop has significantly hurt the Fund's absolute and relative performance. Relative to peers and the benchmark, the Fund stands out, for being positioned further down the market cap spectrum, with a greater allocation to small and micro stocks. Although this is where we see high inefficiencies and therefore the greatest growth potential long-term for the Fund, it has been particularly punished in recent years.

Performance

Among the bottom detractors from performance were Toyo Tanso, GMO Financial Gate, and GA Technologies.

Toyo Tanso makes specialty carbon products and has a leading global share in isotropic graphite used in renewable energy equipment and semiconductor manufacturing. It gave back some of its gains from earlier in the year, however, first quarter results were impressive again, with growth in sales and operating profit. The pullback in the share price was likely a result of flattish sales in silicon carbide amid concerns about a slowdown in demand for electric vehicles. We continue to believe the company is well placed to benefit from the proliferation of devices that use an increasing number of chips in them as well as the emphasis on increasing the use of renewable energy.

GMO Financial Gate is a leading offline digital payments provider that operates in the cashless payments market. Its share price has been weak with no material news, yet sales and profits have been growing rapidly over the past few years as it builds an alternate offline payment network that is low-cost and much faster compared to traditional networks operated by other card companies.

GA Technologies the online real estate platform was also a detractor in the absence of any notable news. Operational performance remains solid, demonstrated in results for the second quarter where sales increased 36% and operating profit was up 146% over the previous year. GA Technologies continues to benefit from its first mover advantage in disrupting traditional industry practices.

Among the top contributors to performance were Yonex, Lifenet Insurance and Noritsu Koki.

Yonex, the Japanese sporting goods company that specialises in badminton rackets saw its share price rise following its annual results to the end of March 2024. Net sales and operating profit increased by 8% and 15% respectively, over the previous year, driven by a general increase in sports activities and strong sales of new products. The bulk of sales continues to come from Japan and Asia, but the long-term strategy to is broaden its global footprint and already there has been some progress in the US tennis market.

Lifenet Insurance, the online life insurance company also posted a strong set of annual results to the end of March 2024. Most notable, was the sharp increase in net income, up 61% year-over-year, boosted by a rise in the number of policies and a fall in the number of claims related to Covid-19. The company also announced its mid-term business plan for the next four years, which demonstrates its commitment to capitalise on the growing number of individuals moving towards the online life insurance market and, focusing marketing efforts on capturing the younger generation, where the opportunity is most extreme.

Noritsu Koki a holding company that has operations across different business lines, including manufacturing and healthcare was also a top contributor. The share price performance was boosted by a solid set of first-quarter results. Highlights included a healthy increase in sales and operating profit over the previous year, of

56% and 278% respectively, driven by growth in the audio equipment and peripherals business.

Notable Transactions

During the quarter we took two new positions in Global Security Experts and Gift Holdings.

Global Security Experts (GSE) is a cybersecurity consulting firm that is focused on Small and medium-sized enterprises (SMEs). Currently, SME spending on cybersecurity is very low because of the lack of understanding of why this is important, presenting an opportunity for GSE to provide solutions at affordable prices.

Gift Holdings is one of Japan's largest ramen restaurants. It has a unique model whereby it operates its own stores but also supplies raw materials to a network of franchisees with a very simple charging structure. This significantly lowers the barrier for franchisees to join its ecosystem thereby enabling the company to expand rapidly at a very low cost and high margin.

These were funded from the sales of several companies where we had lost conviction. Examples include WDB Holdings the temporary staffing agency due to concerns around future scalability and edge, and Kitanotatsujin Corp the skincare and cosmetic retailer which has struggled to grow its subscriber base in the last few years, undermining its long-term competitive advantage.

Market Outlook

We believe we are reaching an inflection point in market expectations. Cyclicals that have dominated market returns, now trade well above their 10-year average valuation multiple, and the supportive macroeconomic factors behind recent earnings growth appear to be dissipating. Contrast that with a Fund that has consistently grown far faster than the market, thanks to several enduring structural growth trends, and is no longer priced at a significant premium to the market. The price-to-sales spread (or relative price of this growth) is now lower than it has been for over 10 years. We believe this creates an exciting opportunity for upside from this point on.

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to 30 June 2024

Stock Name	Contribution (%)
Yonex	1.1
Lifenet Insurance	0.7
Noritsu Koki	0.6
Tsugami	0.5
Peptidream	0.5
SWCC Corporation	0.4
Kohoku Kogyo	0.4
Anicom	0.3
JEOL	0.3
Harmonic Drive Systems	0.2
Toyo Tanso	-0.7
GMO Financial Gate	-0.6
SIIX	-0.6
GA technologies	-0.5
Kamakura Shinsho	-0.5
Jade Group Inc	-0.5
Infomart	-0.4
Litalico	-0.4
SpiderPlus	-0.4
WealthNavi	-0.4

One Year to 30 June 2024

Stock Name	Contribution (%)
Lifenet Insurance	1.2
SWCC Corporation	1.1
Noritsu Koki	0.9
Yonex	0.5
JOEL	0.4
Horiba	0.3
Toyo Tanso	0.2
Anest Iwata	0.2
Mercari	0.2
SANKEN ELECTRIC	0.1
GMO Financial Gate	-1.6
Asahi Intecc	-1.0
Katitas	-1.0
ENECHANGE	-1.0
Raksul	-1.0
Litalico	-0.9
Nakanishi	-0.9
Nittoku	-0.9
Cosmos Pharmaceutical	-0.8
I-ne	-0.8

Source: Revolution, MSCI. Baillie Gifford Japanese Smaller Companies Fund relative to MSCI Japan Small Cap Index (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.

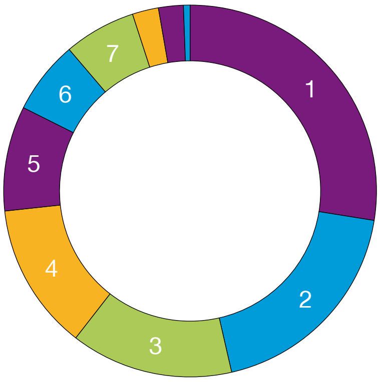
New Purchases

Stock Name	Transaction Rationale
Gift Holdings	Gift holdings is one of Japan's largest ramen restaurants. It has a unique model whereby it operates its own stores but also supplies raw materials to a network of franchisees with a very simple charging structure. This significantly lowers the barrier for franchisees to join Gift Holdings' ecosystem thereby enabling the company to expand rapidly at very low cost and high margin. The company is run by its young and dynamic founder who trained as a ramen chef for several years before starting the company without any external money. Ramen is a staple food item in Japan and it is one of the few categories that has grown over the past decade despite demographic headwinds. We believe the current valuation doesn't reflect these attractions and have taken a small holding.
Global Security Experts	Global Security Experts (GSE) is a small and medium-sized enterprise (SME) focused cybersecurity consulting firm. It provides complete end-to-end cybersecurity solutions for SMEs in Japan and is a leading player in this area as far as SMEs are concerned. It advises SMEs on how to identify vulnerabilities in their IT systems, suggests appropriate measures that they can take to plug the identified vulnerabilities, provides training on cybersecurity related matters, and also carries out implementation and post-implementation support work for cybersecurity tools and packages that are ultimately installed by the SME client based on GSE's recommendation. Japan's low IT preparedness for cybersecurity is a well-known and well-documented fact and this problem is greatly amplified at the SME level where knowledge of cybersecurity and ways of dealing with related threats tends to be minimal. The overall market for SME cybersecurity has been growing at high single digits but this is expected to increase meaningfully in the long-term with rising awareness of cyber attacks and the damage they can cause to SMEs. By focusing solely on SMEs and by pricing its services at extremely affordable price points which lower the barrier to adoption, we believe GSE is very well position to benefit from the trend of rising SME spend on cybersecurity in Japan. Along with fast sales growth, typically above 20%, GSE is also seeing its margins expand as its services are adopted by an increasing number of SMEs. Given all these attractions, we have taken a starter holding in the company.

Complete Sales

Stock Name	Transaction Rationale
Kitanotatsujin	We have decided to sell the position in Kitanotatsujin, the Japanese skincare and cosmetic retailer. Our enthusiasm for the company was based on its unique and original online subscription model, with focused and differentiated advertising and a strong emphasis on unit returns. However the company has struggled to grow its subscriber base in the last few years and has since pivoted away from its direct sales channel, which we believe undermines its long term competitive advantage in the tough domestic cosmetics market. We have hence decided to allocate the capital to better opportunities elsewhere.
M3	M3 operates Japan's largest online drug advertising and marketing platform. Its primary service is the delivery of drug information to doctors. It also operates in adjacent areas such as clinical trial services and specialist job-search. Its competitive position in the core drug marketing business remains strong but in recent years, there has been growing evidence that this business is reaching maturity and we worry that the company might struggle to replicate the high growth rates that it has historically achieved. In the other business that M3 has been developing over the years, its competitive position is less clear as there are already a number of players, some of whom are strong and deep pocketed. In a bid to diversify its revenue sources and achieve high growth rates, M3 is also making more and larger acquisitions, which is leading to the business becoming very complex to manage. This, we believe, substantially increases execution risk and is compounded by poor transparency. Given these concerns, we decided to sell our entire holding in the company.
Nihon M&A	Nihon M&A is one of Japan's leading SME Mergers and acquisitions (M&A) advisory firms. The SME M&A advisory market in Japan remains attractive as the number of businesses with ageing founders and no successors continues to rise, providing companies like Nihon M&A with ample business opportunities. While historic growth has been impressive, we worry that the industry attractiveness has drawn in a large number of new entrants who are now fighting for a small pool of talented consultants, thereby raising costs for all involved. Along with this, there has been a lot of regulatory discussion around the opacity and the fairness of fees charged by these M&A consultants. We worry that this regulatory scrutiny will only get tougher as the industry matures. Finally, Nihon M&A's recent growth rates have noticeably lagged those of its peers and we worry this could be a sign of the company gradually losing its competitiveness. Given all these concerns, we decided to sell our entire holding in the company.
WDB Holdings	WDB is a temporary staffing agency focused on providing Research and development (R&D) laboratory workers for the pharmaceutical and food industries. The company has done very well in building a high market share in its chosen end markets. However, from here we struggle to see much scope for further share gains. In addition, the company is positioning its clinical research (CRO) business as the next growth driver. The CRO market is much more competitive, with numerous large competitors, and WDB is starting off as a marginal player. We don't have much confidence in the company's ability to scale this business up as we worry they don't have a clear edge in the space. As such, we think the long-term sales and profit growth prospects for the company look decidedly average and we therefore decided to sell our entire holding in the company.

Sector Exposure



		%
1	Industrials	27.5
2	Information Technology	18.9
3	Consumer Discretionary	14.1
4	Financials	12.8
5	Communication Services	9.1
6	Health Care	6.4
7	Consumer Staples	6.2
8	Materials	2.3
9	Real Estate	2.2
10	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
Lifenet Insurance	Provides a range of life insurance products and services.	4.1
Toyo Tanso	Electronics company	3.0
Nifco	Value-added plastic car parts	3.0
JEOL	Manufacturer of scientific equipment	2.8
Yonex	Sporting goods	2.6
Nakanishi	Dental equipment.	2.5
Cosmos Pharmaceutical	Drug store chain	2.4
Anicom	Pet insurance provider	2.3
WealthNavi	Operates a wealth management platform	2.2
Noritsu Koki	Holding company with interests in biotech and agricultural products	2.2
Total		27.1

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	32	Companies	2	Companies	3
Resolutions	289	Resolutions	2	Resolutions	3

Company Engagement

Engagement Type	Company
Environmental	Appier Group, Inc., JADE GROUP,Inc
Social	Appier Group, Inc.
Governance	Appier Group, Inc., Bengo4.com,Inc., Descente Ltd., JADE GROUP,Inc, Nippon Ceramic Co., Ltd., YONEX Co., Ltd.
Strategy	Appier Group, 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 %
Lifenet Insurance	4.1
Toyo Tanso	3.0
Nifco	3.0
JEOL	2.8
Yonex	2.6
Nakanishi	2.5
Cosmos Pharmaceutical	2.4
Anicom	2.3
WealthNavi	2.2
Noritsu Koki	2.2
KATITAS	2.2
SWCC Corporation	2.1
Avex Inc.	2.1
GA Technologies	2.0
MegaChips	2.0
LITALICO	2.0
Tsugami	1.9
Nikkiso	1.9
OSG	1.9
Asahi Intecc	1.8
Vector	1.8
Sho-Bond Holdings	1.8
SIIX	1.8
Bengo4.com	1.8
RakSul	1.8
Harmonic Drive Systems	1.7
Kohoku Kogyo	1.7
Optex	1.7
GMO Financial Gate	1.7
PeptiDream	1.5
Nittoku	1.5
Descente	1.4
Cybozu	1.4
MatsukiyoCocokara	1.4
Horiba	1.3
Infomart	1.3
TechnoPro	1.3
eGuarantee	1.3
KH Neochem	1.3
Kitz	1.3
I-ne	1.3
Appier Group	1.2
Oisix	1.2
GMO Payment Gateway	1.1
SpiderPlus	1.1
oRo	1.1
Iriso Electronics	1.0
Anest Iwata	1.0
INFORICH	1.0

Asset Name	Fund %
Shoei	1.0
Kumiai Chemical Industry	1.0
Seria	1.0
MonotaRO	0.8
Shima Seiki Mfg.	0.7
Kamakura Shinsho	0.7
CrowdWorks	0.7
Jade Group Inc	0.7
Gift Holdings Inc	0.7
Global Security Experts Inc.	0.7
Soracom Inc	0.6
CellSource	0.6
Nippon Ceramic	0.6
Torex Semiconductor	0.4
istyle	0.4
Weathernews	0.3
Nabtesco	0.2
Demae-Can	0.2
DaikyoNishikawa	0.2
ENECHANGE	0.1
Akatsuki	0.0
Cash	0.6
Total	100.0

Share Class	Share Class Inception Date	ISIN	SEDOL	Annual Management Fee (%)	Ongoing Charge Figure (%)
Class B-Acc	02 September 1999	GB0006014921	0601492	0.60	0.67
Class B-Inc	01 April 1983	GB0006014582	0601458	0.60	0.67

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.

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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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 Ref: 111419