

## Baillie Gifford Japan Trust

Japan

### Introduction

The Baillie Gifford Japan Trust aims to generate long-term capital growth through investments in medium to smaller sized Japanese companies. The team will invest in companies which they believe have above average prospects for growth. The trust is resourced by the Japanese Equities Team within Baillie Gifford.



[Click here to read the Baillie Gifford approach to ESG investing.](#)

### Manager - Matthew Brett

Manager Since - 30/04/2018

Matthew Brett is an investment manager in the Japanese Equities Team. He joined Baillie Gifford in 2003 and became a partner in 2018. He is manager of the Japanese Fund, manager of the Baillie Gifford Japan Trust and co-manager of the Japanese Income Growth Fund. Matthew graduated BA (Hons) in Natural Sciences (Psychology) from the University of Cambridge in 2000 and holds a PhD in Psychology from the University of Bristol.

Praveen Kumar, Deputy manager, joined Baillie Gifford in 2008. He is an investment manager in the Japanese Equities Team and co-manager of the Japanese Smaller Companies Fund, manager of the Shin Nippon Investment Trust, and deputy manager of the Japan Trust. He is also an International Smaller Companies Portfolio Construction Group member. He graduated BEng in Computer Science from Bangalore University in 2001 and completed an MBA from the University of Cambridge in 2008.

### Trust Objective

The trust's policy is to pursue long-term capital growth rather than income, investing in companies which the team believe have above average growth potential.

### Investment Process

The team make extensive use of company meetings, field trips to Japan and elsewhere, trade fairs and external research to unearth interesting ideas. They also have access to independent Japan-based researchers who follow up on specific issues that have been identified by the team and offer a local and independent perspective. The team also make use of bespoke and thematic reports from these independent researchers who are based in Tokyo.

The Japanese Equities Team use fundamental research as their primary focus to source ideas for the trust. They use a four factor framework using a variety of sources to maintain a list of around 150 stocks which they monitor. The resulting portfolio will usually contain 40 to 70 stocks.

The identification of potential investments focuses on an assessment of a company's status as a successful, growing business, assessing the opportunity set for a particular company and understanding the runway for growth over a 5-10 year horizon. They ask whether there is durability in a company's competitive advantage, can this be sustained and how mission critical is a company's product or service to customers. They assess ESG by looking at the factors that are applicable to the investment case. How material are E, S and G factors to the investment case and how are these being addressed by the company?

The quantum of upside is assessed using a probability-based scenario analysis of how much of the addressable market the business can capture and what that translates to in terms of profitability. The team consider how an investee company can return two times its share price over a five-year period.

Each team member has ownership of research ideas and complete detailed analysis of all results announcements (full year results, plus half year and quarterly results) and any significant company announcements. In addition, for stocks widely owned, they write a regular in-depth research report summarising their financial analysis and an assessment of the strengths and weaknesses of a company's business model relative to its competitors.

The investment managers meet formally twice a month to review portfolios managed across the team and discuss the potential for new ideas. The size of the holdings is based on conviction of the individual investment idea. The final portfolio will have around 40 to 70 stocks and can vary quite widely from the Topix index which is used as its benchmark, with a small to midcap and growth factor bias. The active share of the portfolio is high, reflecting a process focussed on conviction bottom-up stock picking and so the trust may have a degree of volatility against the index.

### Gearing

Currently the Japan Trust has Board approval for net gearing up to 120%, although market movements can take this to 125%. The trust usually maintains gearing in the 10-20% range using bank loans.

### Performance Fees

No performance fee is in place.

## Discount Mechanism

No formal policy is in place, but the Board will regularly review the level of discount and has the power to take a number of actions which may, depending on prevailing conditions and circumstances, operate to reduce the discount.

## Our View

The trust is run with a bottom-up growth-orientated process, a concentrated portfolio and a high active share to its reference index. The manager has historically produced strong long-term returns, with the exception of the most recent years, through a disciplined focussed process based on finding high quality growth companies within the small to mid-cap segment of the market. Japan is seeing an uptick in interest and new investors are considering larger companies before moving down the market cap scale. The dynamism of the small and mid-cap continues to thrive with companies continuing to deliver growth in revenues, whilst investing for the future. This strategy has weathered the most recent headwinds and should return to form in the coming years. The trust is well resourced internally as well as the local independent resource in Japan.

**How to Use This Trust:** The trust is suitable for medium to high risk investors who are looking for growth exposure in Japanese equities. It can be blended with a value leaning proposition or a core index type product which would add large cap exposure and blend the growth orientated exposure of the trust, and offer a balance in a client portfolio.

## Key Strengths

### Business

The partnership structure at Baillie Gifford gives key employees a stake in the business and promotes a long-term focus on investment management, without the distractions of external shareholders.

### Team

The Fund Manager, Matthew Brett, is highly experienced and has a strong performance track record backed by a well-resourced team.

### Process

In common with other Baillie Gifford products, there is a focus on long-term bottom-up analysis with a growth bias. Turnover has been low and active share is very high.

### Product

Long term performance has been strong, and fees are very competitive.



### Important Notice

This document is aimed at Investment Professionals only and should not be relied upon by Private Investors. Our comments and opinion are intended as general information only and do not constitute advice or recommendation. Information is sourced directly from fund managers and websites. Therefore, this information is as current as is available at the time of production.

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