

Baillie Gifford Japanese

Japan

Introduction

Baillie Gifford are a bottom up growth orientated investment house that seek to add value through the use of proprietary, fundamental research, which prioritises the selection of individually attractive companies, rather than taking top-down industry bets. Their aim is to identify businesses with attractive industry backgrounds, strong competitive positions within those industries, high-quality earnings and favourable attitudes towards shareholders. The financial factors considered in this bottom-up analysis include earnings growth, cash generation, profitability, returns on capital, interest coverage and balance sheet strength.



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

Why RSMR Rate this Fund

- The investment team is experienced and long standing.
- Strong investment philosophy of being bottom-up growth orientated investors with a long-term investment horizon.
- Concentrated high-conviction fund which is differentiated from the index.
- Excellent long-term performance record versus other growth style strategies since launch, largely driven by stock selection.

Fund Process

The team believe adopting a long-term approach allows a different approach to the market, looking to back a small number of exceptional businesses. Growth can come in a variety of guises across a number of industries and sectors. Companies are subjected to a four-factor investment framework analysis.

1. How big is the opportunity over 5 to 10 years?
2. How durable/adaptable will the competitive advantage be in 5 years?
3. Looking at environmental, social and governance factors, which are the most important and relevant to the investment case?
4. What is the likelihood of over 2x upside?

From a universe of over 3,500 companies that are listed on Japanese stock exchanges, an initial screening process based on liquidity and business viability eliminates more than two thirds of these, leaving the stocks that the team will consider. The next stage in the identification of potential investments is a more rigorous process which focuses mainly on an assessment of a company's status as a successful, growing business. 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 does that translate to on the bottom line. Estimates of a conservative exit multiple allow the team to expect to double their investment over a five-year period. The preference is to find businesses that are dynamic and change over time as the business opportunity set evolves. Within the fund there are four different types of growth businesses: Secular Growth, Growth Stalwarts, Special Situations and Cyclical Growth.

There are around 400-500 companies which are followed closely, and these comprise the department's 'followed list'.

Companies included on the 'followed list' are subject to the following research disciplines:

- Detailed analysis of all results announcements (full year results, plus half year and quarterly results)
- Detailed analysis of 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. As a coverage check, they monitor their research to ensure that all 'followed list' stocks are subject to:

- A written review at least once every 15 months, and
- A visit or meeting with company management at least every 15 months

The composition of the followed list is reviewed continually to ensure that any relevant change in the circumstances of a company is reflected in the list. The final portfolio will have around 40 to 60 stocks and it can vary quite widely from the Topix index which is used as its benchmark. Financial analysis is key to the final selection of stocks from the above research.

Evaluation

The growth discipline of the managers is intended to deliver a strong long-term return based on good stock selection. This will work well in periods when growth is the dominant style but not as well in value led markets. The concentrated high-growth nature of the fund means that the performance often comes at the expense of a higher volatility level than the sector average.

Application

The fund can be used as a core or satellite option and is also an ideal complement to a passive option in investor portfolios, offering a differentiated growth orientated approach, backed by a strong investment philosophy that has been proven by the success of the team over the long term.

Our Opinion

There is a strong investment team at Baillie Gifford with significant investment experience in the Japanese market. The team are based in Edinburgh but the globalisation of data and the detailed study of the companies on the followed list means there is no significant disadvantage to the investor. The fund is a bottom up growth orientated fund run with a concentrated portfolio. Companies are selected on their through cycle growth prospects combined with valuations which do not reflect the longer term opportunities available to the business.

Baillie Gifford believe that they add value by getting correct stock decisions through proprietary research which gives them the insights they need to beat other investors over time. The team is structured to fit with the Japanese market and deliver consistent returns versus other growth orientated managers from a fragmented market. The fund has a strong style bias versus the wider market and as a result can struggle if value performs strongly or the yen is weak versus the US dollar.



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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