

Baillie Gifford Japanese Income Growth

Japan

Introduction

This is a long-only Japanese equity fund which launched in July 2016. The managers, Matthew Brett and Karen See, apply a disciplined investment process focused on bottom-up growth investing with a yield orientation at the portfolio level. It typically invests in between 45 and 65 companies across the market-cap spectrum.



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

Why RSMR Rate this Fund

- The fund is different from the index as it has a higher yielding, multi-cap approach, resulting in a high active share
- Well-resourced Japanese equity team with a strong investment philosophy focused on long-term growth investing
- Competitive cost structure compared to its sector peers

Fund Process

The investment process primarily focuses on fundamental company research which is the main activity for each member in the team. The benchmark index comprises over 2,000 companies and the managers seek to build a portfolio of between 45 and 65 companies. The team do not aim to cover every possible opportunity in the Japanese market: they look to generate original investment ideas from a variety of sources including company meetings, investment trips, external research and industry trade fairs. Each member of the Japanese equities team is responsible for covering certain sectors with coverage frequently rotating within the team. Over time, they have narrowed the investment universe to a 'Followed List' of around 350 companies, which constitutes the main focus of their research. These are companies which, on initial assessment, are deemed to potentially satisfy more than one of four factors considered important: positive industry background, evidence of a durable competitive advantage, strong financial characteristics and a management attitude that is aligned with the interests of shareholders.

The team conduct around 500 Japanese company meetings each year (including multiple meetings with some companies) both in Japan and in the office in Edinburgh. These meetings are primarily focused on companies held in the funds or those on the 'Followed List'. On a weekly basis, the team formally discuss research reports written by team members. Each attendee is asked to provide a rating of the business, based on its quality and valuation. The quality of a company is rated between A (excellent) and C (poor), and the valuation opportunity is rated from 1 (cheap) to 5 (expensive). These ratings are recorded after a stock has been debated, but before a consensus view is formed. In order to make peer-to-peer comparisons, the team use a standard analytical framework. The first two variables in the analytical framework are industry background and competitive advantage. The second two variables in the analytical framework are financial characteristics and management attitude.

When constructing the fund, the team classify their holdings between four different growth areas to build a robust fund that can withstand market cycles – these are secular growth, growth stalwarts, special situations and cyclical growth. At a bi-monthly portfolio meeting, the investment managers promote changes to fund, taking into account recent research and ratings given at the weekly stock discussion or other strong views they may support. The size of the holdings generally reflects the level of conviction expressed in this discussion, although the final decisions for this fund rest with the two co-managers.

Evaluation

Whilst the fund has an above market yield it still has a growth orientation and looks to deliver returns through strong stock selection. The above average yield at the portfolio level means its focus is on a wider universe than just fast growing businesses.

Application

The fund is suitable for use as a core holding in a portfolio of Japanese collectives as it offers a balanced approach between growth and income. The dividend element should provide some protection at times of market downturn.

Our Opinion

This fund is managed by a well-resourced Japanese Equity Team who have an excellent track record of managing strongly performing mandates in core Japan, smaller companies and also investment trusts. Matthew Brett is also the co-manager of the Japanese fund and has been known to us, along with other senior team members, for many years. This fund has a slightly different approach to the more growth-orientated mandates run by the team as there is a higher emphasis on total returns and dividend growth, although within the fund there remains an emphasis on businesses with the ability to grow strongly across cycles.

**Important Notice**

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