

Japan Trust PLC

Philosophy and Process

Managed by

Baillie Gifford[™]

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It is not intended for use by retail clients.

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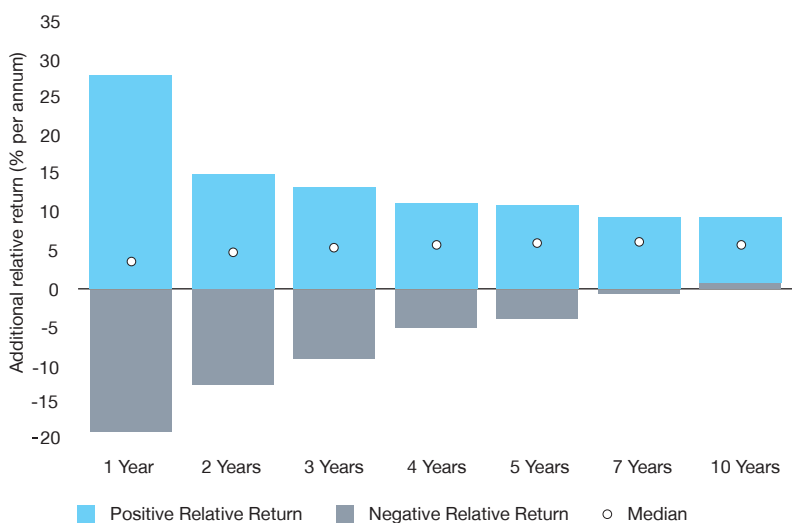
Philosophy

We aim to create value for our clients by finding and investing in Japan's most promising growth companies. We do so, by employing a flexible approach to growth investing, and using time to our advantage.

Time is our greatest asset

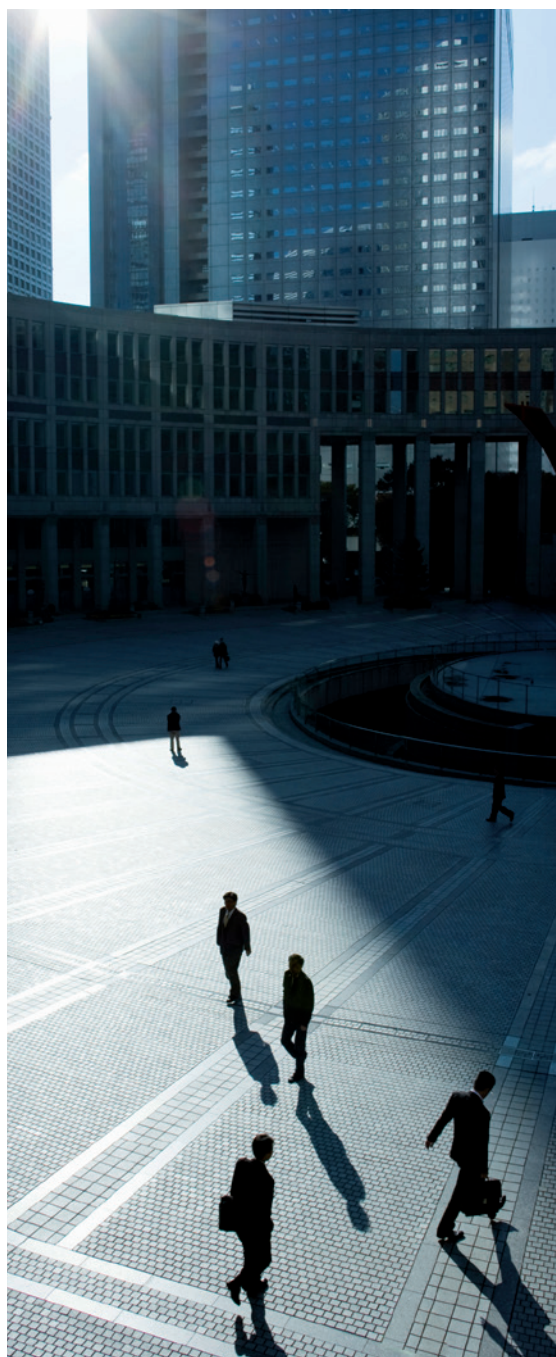
Adopting a long-term approach allows us to frame investment opportunities differently to the rest of the market. We consider the unique attractions of individual companies, and we do so over five-year time periods and beyond. This long-term focus enables us to ignore the shorter-term vagaries of markets, cycles and share prices – to unearth exploitable and under appreciated opportunities that will ultimately deliver long-term out performance.

Range of returns over rolling periods

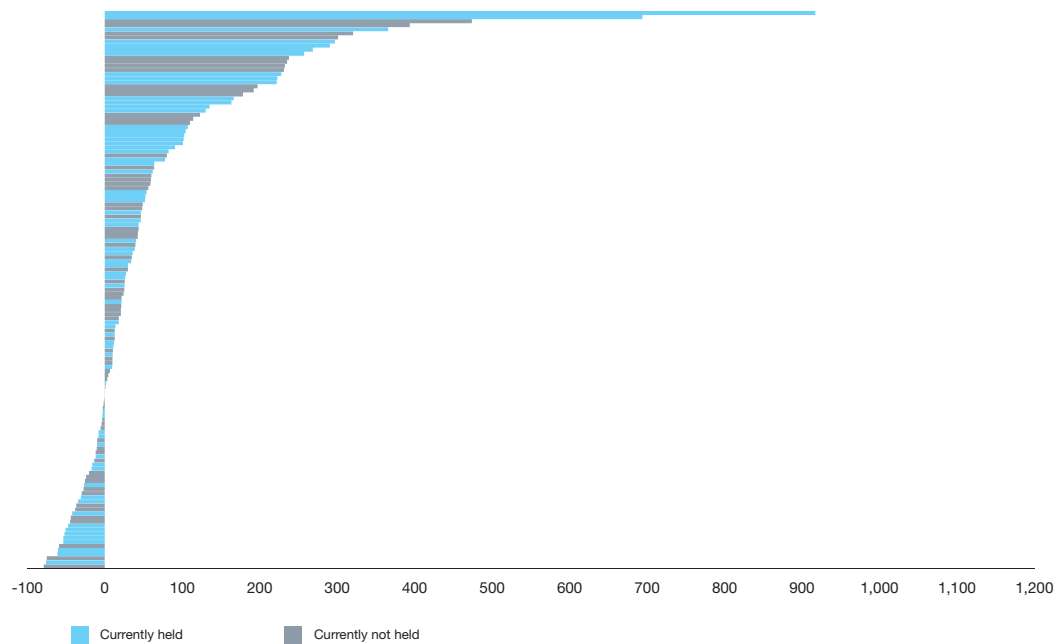


Source: Revolution, Japan Exchange Group. As at 31 December 2023, gross of fees. The figures above show results after analysing annualised returns over each quarter for the Japan Trust Composite (31/12/2011 to 31/12/2023) vs TOPIX.

For our clients' portfolios, long-term returns are determined, by seeking out, investing and continuing to back a relatively small number of exceptional businesses which grow to multiples of their starting size. This approach will inevitably lead to some mistakes along the way, but by focusing on opportunities for major upside potential and supporting them for significant periods of time – by running our winners – we are able to capture the inherent asymmetry of equity market returns.



Cumulative absolute return of Japan Trust stocks – 10 years to 30 November 2023



Source: Revolution. Baillie Gifford Japan Trust PLC. Returns in yen. Stocks in blue are currently held. Stocks in grey have been sold. Some stocks may not have been held for the whole period.

Flexible approach to growth investing

Our experience has highlighted that growth can come in various guises, from companies of all shapes and sizes. As such our portfolios are invariably built, from the bottom-up, with a diversified mix of companies from across all sectors and industries.

The commonality is that each investment must present a plausible pathway to doubling over a five-year period. But of course, there are various ways to climb a mountain. Be that through a gradual (compounding) approach, or via a more vertical (exponential) axis.

By focusing on businesses with attractive structural growth opportunities, with strong and sustainable competitive positions, high-quality earnings and aligned management we will optimise our exposure to Japan's best of breed growth opportunities.

Investment process

We see Japan differently to others.

Idea generation

In pursuit of Japan's most attractive growth companies, we aim to generate original investment ideas by utilising a variety of sources. In addition to the more conventional inputs such as meetings with senior management and scrutinising company reports and accounts, we utilise private company analysis, bespoke and thematic reports from our independent researchers in Tokyo, investment trips (not limited to Japan), links with academia and industry experts.

Research and debate

Companies that pique our interest are subject to our four-factor investment framework analysis. This process is intended to focus attention on key fundamentals that we believe are most pertinent to delivering long-term growth.

1. Opportunity

How big is the opportunity over 5-10 years?

First, we look at the favourableness of the environment in which the company operates.

Is this a blue ocean opportunity in terms of the addressable market? Are there favourable industry dynamics, such as weak incumbency? Is the industry or market undergoing structural change? What will be the effects of environmental and technological shifts in the long-term and which companies are likely to benefit?

2. Resilience +

How durable/adaptable will the competitive advantage be in five years' time?

We then explore whether the company has identifiable qualities that we believe will allow it to thrive in the complex environment in which it operates.

One way of thinking about Resilience is as dynamic and durable competitive advantage. How replicable is their edge, and is it sustainable? Another view is from the customers' perspective. How much value is the company adding? If it did not exist how much would it be missed? We are less interested in their competitive moat right now than, how deep it will be in five years' time and whether it will get deeper from there.

Another important aspect is the competence and alignment of management. Are leadership able to create new value organically? Is there a strong record of execution that gives us confidence in the future decisions? Can we see evidence of genuine ambition and vision? Are they aligned with wider stakeholders?

A business with high resilience should also have excellent future financial characteristics. An ideal investment will see its returns improve as it grows, and profits will be effectively converted to free cashflow. For those businesses that are more economically sensitive we look for evidence that profits and returns can rise through capital cycles and ideally make investments for our clients at what we believe to be favourable entry points.

Together these factors help us to identify whether we think the company in question will successfully execute on the opportunity that exists.

3. Sustainability

Taking in turn environmental, social, and governance factors, which do you believe are important and relevant to the investment case?

We believe that ESG factors can have a material impact on a company's ability to generate long-term value. As such, we explicitly address these issues within the research framework.

Here we explore how the company intends to address environmental, social, and governance factors. The relevance of each is based upon the perceived materiality to the long-term sustainability of the company's business. As a result, key ESG considerations will vary depending on the industry sector, and core business activities of each company.

The team have a dedicated ESG analyst who works collaboratively with the investment managers to assess sustainability factors as part of the decision making process.

4. Upside

What is the likelihood of over 2x upside?

This dimension brings the investment case together, indicating to us whether a holding meets the high bar that we look for. We prefer to focus on the return we might realistically expect to make if we invest in the shares, aiming off conventional valuation metrics, which often tell us very little about the upside potential.

We assess the probability weighted average upside, considering both realistic base case scenarios as well as blue sky outcomes.

Decision

The final decision will lie with the manager(s) of the strategy, depending on individual conviction and broader portfolio context, whilst taking any relevant guidelines into account.

To assist in this process, the investment managers meet formally fortnightly to review the portfolio and prospective investments.

Portfolio construction

To ensure enthusiastic participation in all discussions, the Japanese Team is rewarded collectively on all of their assets under management, but in order to facilitate effective decision making, each model has a lead manager. Matthew Brett is the lead manager for Japan Trust, supported by Praveen Kumar.

The investment managers meet formally twice a month to review existing portfolio holdings and when appropriate to make the case for new purchases. Portfolio holding size is not formulaic but reflects the strength of conviction in a particular investment idea and an assessment of how much our view differs from the market. The team may add to or reduce position sizes when our relative convictions change, though generally our tendency is to run our winners.

Sell discipline

We believe that the application of an effective sell discipline allied to a willingness to run successful investments has made a key contribution to the generation of added value for our clients.

Each stock owned is subject to continuous performance review, and to a regular programme of analysis and reassessment to determine whether it should remain in the portfolio. Any stock which fails to meet our expectations is subject to special review and we will sell a stock unless we can identify reasons why its performance should improve in the foreseeable future.

We will consider selling if:

- Results fail to meet expectations, or the company or a competitor warns on the outlook
- Management disappoints
- The competitive landscape changes
- There is an exogenous shock to the business environment

In each of these areas, we will rigorously re-examine the original reasons for purchasing the stock and consider whether these have changed irrevocably.



How we manage risk

Risk. Going beyond box ticking.

We believe that permanent loss of capital is the most important risk to any portfolio, over and above model-based risk measures and historic share-price behaviour. We attempt to mitigate this risk in various ways:

Fundamental analysis

Our first line of defence is extensive due diligence. New buy ideas – and current holdings – are subject to thorough reviews by the Japanese Equity Team, with input from a plurality of Baillie Gifford research teams.

Portfolio risk

We seek to maintain an appropriate level of diversification at the overall portfolio level by embracing pragmatic risk guidelines which are formally reviewed on a regular basis.

Liquidity risk

We maintain a Product Group rule that we will not hold more than 10 per cent of the portfolio in stocks where we hold more than 8 days' trading volume at time of purchase. This ensures that the portfolio remains sufficiently liquid to enable positions to be exited or client cash flows to be managed with minimal impact.

Independent Oversight, beyond box ticking

We have an independent Investment Risk Team at Baillie Gifford which provide value-added analysis on portfolios, that goes far beyond the concept of an investment risk function being only adversarial risk police. While part of their toolkit includes an ability to disagree and constructively oppose based on various oversight mechanisms and risk guidelines, they also play a role as engagers of portfolio managers: providing perspectives on the portfolios (on capital allocation, behavioural biases and decision making analysis for example) with the aim of improving the investment process, to achieve better outcomes and minimise opportunity costs.

This reflects our pragmatic approach to risk management.

Investment Risk Philosophy

Patience is a virtue, and fundamentals dominate long-term returns

Short-term volatility shouldn't unduly influence long term decisions

Focus on value-adding relationships with Investment Teams

Provide bespoke analytics and research

Focus on downside risk as well as on potential upside foregone

'Risk' is not a single number solution

We recognise the limitations of risk model and use critical thinking to interpret outputs

Beyond box ticking

Value adding and engaging analysis drawn from a variety of measures and perspectives

Risk controls

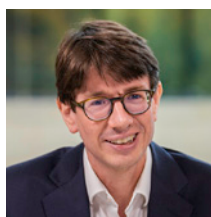
Number of stocks	40–70 holdings
Holding size	<5% at time of purchase. Any holding that as a result of strong performance exceeds 5% is subject to further scrutiny.
Relative stock/sector weights	Although sector concentrations and the thematic characteristics of the portfolio are carefully monitored, there are no maximum limits to deviation from benchmark stock or sector weights except as imposed by banking covenants on borrowings.

Japan Trust team at Baillie Gifford

Investment team

Management of the investment portfolio is led by Matthew Brett.

All members of the Japan Team have fundamental company research as their primary responsibility, regardless of whether they are investment managers or investment analysts. This reflects Baillie Gifford's view that stock selection based on fundamental research is the main opportunity to add value. Their sector research responsibilities encompass the full range of market capitalisation, from the largest companies in a sector down to interesting small companies. Thus every team member contributes ideas to the portfolio.



[Matthew Brett](#)

Manager

Matthew 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 (and related All Cap Strategy segregated accounts), 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

Praveen joined Baillie Gifford in 2008. He is an investment manager in the Japanese Equities Team. He is co-manager of the Japanese Smaller Companies Fund, manager of related Japan Small Cap Strategy segregated accounts and 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.

Board Liaison



[Alex Blake](#)

Director, Investment Trusts

Alex joined Baillie Gifford in 2014 and is Head of Investment Trust Operations. Previously, he qualified as a lawyer before joining the corporate finance department of an Investment Trust broker. Alex graduated LLB from the University of Edinburgh in 2005.



Japan Trust board

The board has overall responsibility for the Trust's affairs. A number of matters are reserved for its approval including strategy, investment policy, currency hedging, gearing, treasury matters, dividend and corporate governance policy. The Board also reviews the financial statements, investment transactions, revenue budgets and performance.

The board currently comprises of five directors, all of whom are non-executive. The executive responsibilities for investment management have been delegated to the Trust's managers and secretaries, Baillie Gifford & Co Limited, and in the context of a board comprised entirely of Non-Executive Directors, there is no Chief Executive Officer. The directors believe that the board has a balance of skills and experience that enables it to provide effective leadership and proper governance of the Trust.

[David Kidd](#)

David Kidd was appointed a director in 2015 and became chairman in June 2022. He has almost 40 years' experience in the City, in the roles of Chief Investment Officer and Independent Professional Trustee. He is also Chair of Trustees, ABRSM Pension Scheme, senior independent director of Mid Wynd International Investment Trust PLC and a director of The Golden Charter Trust.

[Joanna Pitman](#)

Joanna Pitman was appointed a director in 2018 and appointed senior independent director in June 2022. She is Chair of the Remuneration Committee. She read Japanese Studies at Cambridge University and speaks Japanese. She was Tokyo Bureau Chief of The Times from 1989 to 1994 and for the past eleven years she has worked as a corporate research analyst focused on Japan. She is vice chair of the Great Britain Sasakawa Foundation and UK Chair of SAIDIA.

[Patricia Lewis](#)

Patricia Lewis was appointed a director on 1 August 2023. She is a financial services executive with 25 years' experience advising clients globally in investment and capital management. Most recently, she held the position of Managing Director and Head of EMEA Loans and Special Situations Sales at Bank of America Merrill Lynch. She is also a director of Snowball Impact Management Ltd.

[Sharon Brown](#)

Sharon Brown was appointed a director in 2019. She is chair of the Audit Committee and a qualified accountant. She is currently a director and audit committee chair of European Opportunities Trust plc and Celtic plc. She was previously finance director of Dobbies Garden Centres plc and a director of McColl's Retail Group plc, Fidelity Special Values plc and a number of unlisted companies in the retail sector.

[Sam Davis](#)

Sam Davis was appointed a director in 2021. He is chair of the Management Engagement Committee. Sam studied Japanese at Oxford before joining Morgan Grenfell & Co. Ltd, working initially in corporate finance in both London and Tokyo. He moved to Morgan Grenfell Asset Management in 1996 to work with a Tokyo-based team. In 2000 he joined Putnam Investments first in Boston, MA and then in London where, over his 19-year tenure, he managed Asian, European and broad international equity portfolios. As Putnam's co-head of equities he oversaw a global investment team and was CEO of Putnam Investments Ltd, the group's UK regulated entity.

Product information

You can invest in the Japan Trust in a number of ways. The shares are traded on the London Stock Exchange, so they can be purchased through a stockbroker or through a platform (see list below).

The following are the platforms which offer the Japan Trust:

Abrdn - Wrap

Advance by Embark

AJ Bell Investcentre

AJ Bell Youinvest

Ascentric

Aviva Wrap

Barclays Smart Investor

Bestinvest

Charles Stanley Direct

Close Brothers

Close Brothers - Self Directed Service

Elevate

Embark

EQI Invest

Fidelity - Funds Network

Fidelity Personal Investing

Freetrade

Halifax Share Dealing

Hargreaves Lansdown

Hubwise

Interactive Investor

Novia

Nucleus

Quilter

Raymond James

Seven Investment Management

Tillit

Transact

True Potential

Wealthtime

Willis Owen

Winterflood

Japan Trust policies

The Trust's policy is to pursue long-term capital growth rather than income.

The Trust's investment portfolio is actively managed and asset allocation at any point in time will reflect the manager's and the Board's views. The neutral policy is for shareholders' funds to be fully invested.

The Trust will typically consist of around 40–70 stocks. The size of the holding will normally reflect the conviction we have for the stock.

Portfolio construction

The Trust invests primarily in mid and small capitalisation Japanese companies. The portfolio is constructed on a bottom-up basis without reference to the benchmark. Sector allocation is a consequence of the attractiveness of individual stocks rather than being based on any top-down macro view.

Gearing

Gearing is used actively (long and short-term borrowings). Its extent is discussed at every board meeting and adjusted accordingly.

Currently the Trust has board approval for net gearing up to 120%, although market movements can take this to 125%. All borrowing facilities require board authorisation.

Hedging

The Trust may, from time to time, enter into derivative transactions to hedge specific currency risk. The managers may not enter into derivative transactions without the prior approval of the board.

It is extremely difficult to predict currency movements and currencies can appear cheap or dear for long periods of time. Considering this, the board announced in 2011 that the Trust will not engage in hedging the trusts GBP/JPY equity exposure. Should this view change it will be announced to the market through the usual channels.

Buybacks

The Trust seeks annually, and currently has, authority to buy back 14.99% of its issued share capital for cancellation in the current financial year.

The purpose of using such authority is to enhance the net asset value per share for existing shareholders when the discount becomes substantial.

Issuance

The Trust currently has authority to issue 10% of issued shared capital on a non pre-emptive basis. The authority to issue is sought annually at the AGM. Any issuance feeds natural market demand and is only undertaken at a premium to NAV, so asset enhancing for existing shareholders.

Other Investment trusts managed by Baillie Gifford & Co Limited:

	AIC Sector
Scottish Mortgage Investment Trust PLC	Global
The Monks Investment Trust PLC	Global
The Scottish American Investment Company P.L.C.	Global Equity Income
Edinburgh Worldwide Investment Trust plc	Global Smaller Companies
The Baillie Gifford Shin Nippon Trust PLC	Japan Smaller Companies
Pacific Horizon Investment Trust PLC	Asia Pacific
Baillie Gifford US Growth Trust plc	North America
Baillie Gifford UK Growth Fund plc	UK All Companies
Baillie Gifford European Growth Trust PLC	Europe
Baillie Gifford China Growth Trust PLC	China
Keystone Positive Change Investment Trust plc	Global

Trust information

The Baillie Gifford Japan Trust PLC is an investment trust listed on the London Stock Exchange and is not authorised or regulated by the Financial Conduct Authority.

Trust aims

The Baillie Gifford Japan Trust PLC aims to pursue long-term capital growth, principally through investment in medium to smaller sized Japanese companies which are believed to have above average prospects for growth, although it can invest in larger companies when considered appropriate.

As with any investment, your clients' capital is at risk. A Key Information Document is available by contacting us.

Trust Details

SEDOL	0048583
ISIN	GB0000485838
AIC Sector	Japan
Benchmark	Topix (total return, in sterling terms)
Year End	August
AGM	November/December
Results Announced	April and October
Management Details	Baillie Gifford & Co Limited are appointed as investment managers and secretaries to the company. The management contract can be terminated at six months' notice.
Annual Management Fee	Baillie Gifford & Co Limited's annual remuneration is calculated as 0.75% on the first £50 million net assets of the Company attributable to its shareholders, the next £200m is calculated as 0.65%, thereafter 0.55%. This is calculated and payable on a quarterly basis.



Why invest with Baillie Gifford

Long term. Patient. Consistent ownership. Sharing the same values as great Japanese companies also allows us to share in their success.



Baillie Gifford was founded in 1908 in Edinburgh where it continues to have its headquarters and is an investment partnership, wholly owned by the people who invest for and look after our clients. Through each successive generation of partners our sole focus on generating superior long-term investment results for our clients has been the bedrock of our growth.

Partnership defines us

Our structure allows us to put our clients' needs first rather than dance to the tune of external shareholders. It brings stability and a long-term time frame to everything we do in our business, whether choosing the best investments for our clients' portfolios or continually investing in the firm and developing our people. Partnership also brings independence, allowing us to be truly active investors. Our portfolios are shaped by where the best investment opportunities lie, rather than where the index dictates. We encourage personal responsibility, creating a strong culture of inquisitiveness, debate and respectful trust in which our investors are nurtured, and thrive.

How to contact us

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