

Baillie Gifford Japanese Fund

30 September 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

Our objective is to produce above-average long-term performance through investment in Japanese equities. We believe the Japanese equity market offers active managers a broad selection of high quality companies capable of delivering attractive and sustainable earnings growth for shareholders. Over time we expect this approach to generate better returns than the Japanese market. In contrast to other major markets, growth often commands little or no valuation premium in Japan, and we continue to identify global leading businesses which trade on a substantial discount to their peers. This provides an excellent backdrop for our investment style.

Fund Facts

Fund Launch Date	08 October 1984
Fund Size	£1390.1m
IA Sector	Japan
Active Share	82%*
Current Annual Turnover	9%
Current number of stocks	60
Stocks (guideline range)	45-65

*Relative to TOPIX (in sterling). Source: Baillie Gifford & Co, Japan Exchange Group.

Fund Manager

Name	Years' Experience
Matt Brett*	21

*Partner

Fund Objective

To outperform (after deduction of costs) the TOPIX, 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 (%)	1.3	10.8	-3.5	1.8
Index (%)*	0.8	10.7	3.3	5.5
Target (%)**	1.2	12.4	4.9	7.1
Sector Average (%)***	1.4	11.1	1.5	5.2

Source: FE, Revolution, Japan Exchange Group. 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.

*TOPIX (in sterling).

**TOPIX (in sterling) plus at least 1.5% per annum over rolling five-year periods.

***IA Japan Sector.

Discrete Performance

	30/09/19- 30/09/20	30/09/20- 30/09/21	30/09/21- 30/09/22	30/09/22- 30/09/23	30/09/23- 30/09/24
Class B-Acc (%)	7.9	12.4	-19.3	0.6	10.8
Index (%)*	2.4	15.6	-13.5	15.1	10.7
Target (%)**	3.9	17.4	-12.2	16.9	12.4
Sector Average (%)***	5.6	16.7	-15.4	11.3	11.1

Source: FE, Revolution, Japan Exchange Group. 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

Japan's economic trajectory continued to diverge from other major markets during the quarter, as its central bank persisted with a tighter monetary policy (to arrest recent inflationary pressures) in contrast to an accelerated move towards more accommodative measures in both the US and China (in response to softer economic data). The Yen balanced out this equation by gaining significant ground against the dollar. Large cap cyclicals, which had relied on strong global economic growth and a weak currency up to this point, suffered the biggest fallout from this reversal.

This change in direction helped the Fund outperform the index during the quarter. It also bodes well for longer-term returns, as the weighting towards cyclicals has been reduced in recent years, in favour of less-economically sensitive stocks underpinned by structural growth trends.

Politics – from attempted assassinations (Trump), retirements (Biden) and surprises (Shigeru Ishiba) – also played a part in unsettling markets during the summer. The latter appeared to upset market participants who had expected BoJ easing advocate Sanae Takaichi to succeed Kishida as the Liberal Democratic Party President. The success of Shigeru Ishiba, dubbed 'Anti-Abenomics' and a fan of fiscal reconstruction, unfortunately injected further volatility into the final days of the quarter. We anticipate that these concerns will become insignificant in the long run, considering the substantial structural growth opportunities that continue to emerge in Japan.

Performance

Overweight positions in Rakuten, the online fintech and ecommerce giant and MonotaRo a B2B online platform for maintenance repair and operational products - and a nil holding in Toyota - were significant drivers of relative returns during the quarter.

Both Rakuten and MonotaRo have demonstrated impressive operational success lately which appears to be countering their critics. Rakuten – which boasts a large portfolio of online services – has been attempting to enter Japan's profitable oligopolistic mobile market with its own offering. Recent results suggests that this may now be working, as mobile subscriber numbers are nearing 8m. MonotaRo's results also helped allay concerns of slowing growth after the company announced double digit first half sales, driven by a 29% increase in sales to larger enterprises. We believe

further upside lies ahead as MonotaRo leads the shift online for this outdated and inefficient SME-populated market.

Toyota's share price weakness can be attributed to YEN appreciation and concerns over slowing auto sales in key markets like the U.S. and China. The portfolio's underperformance can be attributed to its exposure to semiconductors, a sector that experienced a substantial sell-off during the third quarter. Although this industry has helped carry global markets in recent years, rising concerns regarding the slower-than-expected monetization of AI (artificial intelligence) investments (with major tech companies like Meta and Arm indicating it could take years to see meaningful returns), worries about capacity constraints in chip production (TSMC warning that AI chip output would remain limited until 2025) and geopolitical concerns have led to a recalibration of earnings expectations. This has weighed on companies such as Softbank, due to ARM (which is the largest asset within the group), SBI Holdings, which has various semiconductor-related business initiatives and Rohm, a leading manufacturer and supplier of silicon carbide (SiC) power semiconductors, which have significant application within autos.

Notable transactions

We took a new position in Daikin, Japan's second largest capital goods company and a global leader in Heating, Ventilation and Air Conditioning technology. Their century of experience, vertical integration and global distribution and manufacturing base makes them the primary player within this structurally growing global industry.

These were funded from the complete sale of Kyoto Financial Group (formally the Bank of Kyoto) and Iida, a detached house builder, over concerns over the sustainability of their growth.

Market Outlook

Evidence of shifting market dynamics presents a compelling case for a portfolio that is more geared towards structural growth.

As cyclical tailwinds subside, structural growth – in areas such as digitalisation, automation and healthcare – should outpace the broader market performance. As these structural shifts become entrenched, investors who align their portfolios with these long-term trends will benefit from sustained growth trajectories that transcend short-term market fluctuations.

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to 30 September 2024

Stock Name	Contribution (%)
Toyota Motor	0.8
Rakuten	0.8
Tokyo Electron	0.4
Pola Orbis	0.3
MonotaRO	0.3
Calbee	0.3
Disco	0.3
Mitsubishi UFJ Fin Grp	0.3
Kao	0.3
Tsumura	0.2
SoftBank Group	-1.0
SBI Holdings	-0.6
DMG Mori	-0.4
Rohm	-0.3
Shiseido	-0.2
Hitachi	-0.2
Mitsubishi Heavy Industries	-0.2
Eisai	-0.2
Bridgestone	-0.2
COLOPL	-0.2

One Year to 30 September 2024

Stock Name	Contribution (%)
MS&AD Insurance	1.4
Rakuten	1.2
SoftBank Group	0.7
Toyota Motor	0.7
Recruit Holdings	0.7
Tsumura	0.5
NTT	0.4
Japan Exchange Group	0.3
Daikin Industries	0.3
MonotaRO	0.3
Hitachi	-1.1
Rohm	-1.1
Shiseido	-0.8
M3	-0.7
Mitsubishi Heavy Industries	-0.5
Kubota	-0.5
Pola Orbis	-0.5
Bridgestone	-0.4
Mercari	-0.4
Tokio Marine Holdings Inc	-0.3

Source: Revolution, Japan Exchange Group. Baillie Gifford Japanese Fund relative to TOPIX (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 July 2024 to 30 September 2024.

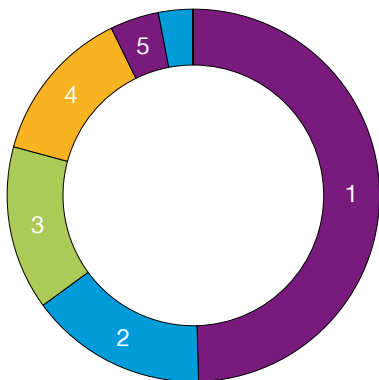
New Purchases

Stock Name	Transaction Rationale
Daikin Industries	Daikin is a leading air-conditioning (AC) company with large market shares in medium and high-end AC across the world. Daikin's focus on AC as a product category and its vertically integrated business model enables the company to produce higher quality and more energy-efficient AC than the competition. The company's valuation has recently been relatively weak mainly due to concerns around the property market in China and slowing demand for heat pumps in Europe. While we acknowledge that Daikin may face cyclical weaknesses in some parts of its business over the short term, we expect the company to deliver overall solid growth over the next five years and beyond, as global warming and stricter regulations for AC are likely to support demand for Daikin's products. Therefore we decided to take a holding.

Complete Sales

Stock Name	Transaction Rationale
Iida Group Holdings	Iida Group was formed at the end of 2013 from the merger of several low-cost detached house builders. Although detached housing as a category is unlikely to show much growth we believed that Iida's scale would allow it to show profit growth through margin improvement. However, despite a good market share in its core regions the company has persistently been unable to achieve this, leading us to conclude that it may never happen. We therefore decided to sell the holding in Iida Group to fund higher conviction ideas elsewhere.
Kyoto Financial Group Inc	Kyoto Financial Group (formally Bank of Kyoto) is a regional bank with particular strength around the city of Kyoto and the surrounding area. It has a very unusual balance sheet structure, with a high equity ratio but the vast majority of that equity comprising holdings of its customers' shares. This means that it can be thought of as a combination of a bank and an investment trust. Recently these attractions have become better-understood and activist pressure has resulted in significantly improved dividends. Nonetheless Bank of Kyoto Financial Group remains a very conservatively managed institution that may struggle with adaptation to a world of AI. Therefore we decided to sell the holding to fund ideas where we have greater conviction.

Sector Exposure



		%
1	Manufacturing	49.6
2	Services	15.4
3	Transport And Communications	14.2
4	Finance & Insurance	13.5
5	Commerce	4.2
6	Real Estate	3.0
7	Cash	0.1

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
SoftBank Group	Telecom operator and technology investor	6.9
Rakuten	Internet retail and financial services	5.4
Sumitomo Mitsui Trust	Japanese trust bank and investment manager	4.9
SBI Holdings	Online financial services	3.6
GMO Internet	Internet conglomerate	3.3
Nintendo	Gaming consoles & software	3.2
Recruit Holdings	Property, lifestyle and HR media	3.1
Sony	Consumer electronics, films and finance	3.0
CyberAgent	Japanese internet advertising and content	3.0
MS&AD Insurance	Japanese insurer	2.6
Total		39.0

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	2	Companies	None	Companies	None
Resolutions	17	Resolutions	None	Resolutions	None

Company Engagement

Engagement Type	Company
Environmental	Kakaku.com, Inc., Kubota Corporation, MS&AD Insurance Group Holdings, Inc., Sony Group Corporation, Sumitomo Metal Mining Co., Ltd.
Social	Sony Group Corporation
Governance	Calbee, Inc., GMO internet group, Inc., Kakaku.com, Inc., Keyence Corporation, Kubota Corporation, M3, Inc., MIXI, Inc., MS&AD Insurance Group Holdings, Inc., Mercari, Inc., Mitsubishi Estate Co., Ltd., Olympus Corporation, ROHM Co., Ltd., Shiseido Company, Limited, Sony Group Corporation, Sugi Holdings Co.,Ltd., Sumitomo Metal Mining Co., Ltd.
Strategy	GMO internet group, Inc., Olympus Corporation

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 %	Asset Name	Fund %
SoftBank Group	6.9	Mercari	0.7
Rakuten	5.4	Pigeon	0.6
Sumitomo Mitsui Trust	4.9	PeptiDream	0.6
SBI Holdings	3.6	freee K.K	0.6
GMO Internet	3.3	Broadleaf	0.5
Nintendo	3.2	Nihon M&A	0.5
Recruit Holdings	3.1	Nippon Electric Glass	0.4
Sony	3.0	Bengo4.com	0.4
CyberAgent	3.0	Digital Garage	0.3
MS&AD Insurance	2.6	Infomart	0.3
FANUC	2.6	BASE	0.1
Bridgestone	2.5	Cash	0.1
Japan Exchange Group	2.5	Total	100.0
Kao	2.4		
Kubota	2.4		
Keyence	2.2		
Pola Orbis	2.0		
Calbee	1.9		
MISUMI	1.9		
Unicharm	1.8		
Sumitomo Metal Mining	1.7		
Tsumura	1.6		
Shiseido	1.6		
Eisai	1.6		
Olympus	1.5		
DMG Mori	1.4		
Murata Manufacturing	1.3		
Kyocera	1.3		
Rohm	1.3		
MonotaRO	1.3		
SMC	1.3		
Systemex	1.2		
Kose Corporation	1.2		
Nippon Paint	1.2		
Daikin Industries	1.1		
Tokyo Tatemono	1.1		
COLOPL	1.1		
Sugi Holdings	1.1		
PARK24	1.1		
M3	1.0		
Kansai Paint	1.0		
MIXI	1.0		
Wacom	0.9		
Nidec Corporation	0.9		
Topcon	0.8		
Asahi Group	0.8		
Kakaku.com	0.8		
Mitsubishi Estate	0.8		
LY Corporation	0.7		

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Share Class	Share Class Inception Date	ISIN	SEDOL	Annual Management Fee (%)	Ongoing Charge Figure (%)
Class B-Acc	02 August 1999	GB0006011133	0601113	0.60	0.64
Class B-Inc	08 October 1984	GB0006010945	0601094	0.60	0.64

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.

TOPIX

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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 September 2024 and source is Baillie Gifford & Co unless otherwise stated.