

## Baillie Gifford Japanese Smaller Companies Fund

30 September 2024

### About Baillie Gifford

<b>Philosophy</b>	Long-term investment horizon A growth bias Bottom-up portfolio construction High active share
<b>Partnership</b>	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

We invest in attractively valued smaller companies that we believe offer good growth opportunities. Growth may come from innovative business models, disrupting traditional Japanese business practises, or market opportunities such as growth by Japanese companies outside Japan.

### Fund Facts

Fund Launch Date	01 April 1983
Fund Size	£164.0m
IA Sector	Japan
Active Share	96%*
Current Annual Turnover	17%
Current number of stocks	66
Stocks (guideline range)	40-80

\*Relative to MSCI Japan Small Cap Index (in sterling). Source: Baillie Gifford & Co, MSCI.

### Fund Manager

Name	Years' Experience
Praveen Kumar	16

## Fund Objective

To outperform (after deduction of costs) the MSCI Japan Small Cap Index, 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 (%)	6.6	-6.5	-17.0	-6.6
Index (%)*	5.8	8.9	1.3	3.1
Target (%)**	6.2	10.6	2.8	4.7
Sector Average (%)***	1.4	11.1	1.5	5.2

Source: FE, Revolution, MSCI. 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.

\*MSCI Japan Small Cap Index (in sterling).

\*\*MSCI Japan Small Cap Index (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 (%)	24.2	0.4	-30.1	-12.7	-6.5
Index (%)*	2.0	10.1	-12.1	8.5	8.9
Target (%)**	3.5	11.8	-10.8	10.1	10.6
Sector Average (%)***	5.6	16.7	-15.4	11.3	11.1

Source: FE, Revolution, MSCI. 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

The Japanese markets experienced significant volatility during the quarter with the TOPIX plunging 12% at the start of August, its largest fall since 1987. This was fuelled by concerns about the US economy weakening and a sharp increase in the Yen against the dollar following the Bank of Japan's rate increase at the end of July. The sell-off was indiscriminate but hit exporters and leveraged institutions (namely banks and other financial businesses) particularly hard. Markets have now rebounded and the Fund outperformed its benchmark over the quarter.

## Performance

Among the top contributors to performance were Raksul, Appier and Descente.

Raksul, a cloud-based platform offering on-demand services for printing and trucking, saw its share price rise following its full-year results. Sales and operating profits increased by 24% and 42%, respectively, over the previous year. Raksul completed more than six M&A transactions over the year, increasing its capabilities for cross-selling and expanding into new markets. The total number of users on its platform is now 2.7m, reflecting an increase in customer engagement.

Appier is a Taiwanese software company listed in Japan. Its software-as-a-service products use Artificial Intelligence to help clients acquire and understand customer behaviour and automate associated business processes. Recent second quarter results were solid, reporting record high revenue growth of +30% year-over-year, driven by growth in Northeast Asia and the US. Operating profit also surged more than 340% year-over-year. For the first time, Appier also announced a share buyback program, signalling confidence in future profitability and commitment to shareholder returns.

Descente is a sportswear manufacturer with a portfolio of well-known brands like Le Coq Sportif, Umbro, and the eponymous brand Descente. Japanese trading company Itochu, a majority shareholder, recently announced a tender offer for Descente, offering a near 20% premium to buy out minorities and take the company private. Given our status as a minority shareholder and the strong share price performance since we originally took a holding, we feel there is less upside potential and, therefore, decided to sell our holding.

Among the bottom detractors from performance were Litalico, Jeol and WealthNavi.

Litalico is Japan's leading provider of training and employment services for disabled adults, and day care services for children with developmental disabilities. Its share price has been weak following the company's first-quarter results, which reported losses in the child welfare segment resulting from changes to support programmes. We believe this to be short-term due to changes in regulation and expect the segment to recover as new users join. The vocational welfare segment continues to perform well, with a healthy increase in sales and profit over the previous year and the number of job placements remaining high.

Jeol is a specialist manufacturer of high-powered microscopes and other scientific analysis equipment. It has suffered from broader semiconductor weakness, the impact of export restrictions to China, and market concerns around the peaking of Artificial Intelligence related demand. Despite this, first-quarter results were solid, with healthy overall top-line growth and a boost in profits from mask writer platforms.

WealthNavi is Japan's leading digital robo-wealth management platform. Recent share price weakness can be attributed to the full year forecast for operating profit being below consensus estimates. Regardless of this, the company continues to invest in new technology and expand its services offered, which has contributed to strong revenue and operating profit growth over the first half of this year.

## Notable transactions

During the quarter we took a new holding in Amvis, Japan's leading operator of chronic and terminal care hospices. Hospices are a new concept in Japan, a country where patients with terminal illnesses stay over 3x longer at hospitals compared to other developed markets. Despite being the leading operator, and more than twice the size of the next largest players, its share of the nursing care market is still less than 10% so there remains a large runway for growth.

These were funded from the sales of several companies where we had lost conviction. Examples included Daikyonishikawa, a car parts maker that generates most of its sales by selling to Mazda, and Nabtesco, a manufacturer of precision gears and a variety of other equipment used in transport, construction, and industrial sectors. Both companies have faced increased competition in recent years and look structurally challenged to grow in a changing macro environment.

**Market Outlook**

While the past few years have been challenging, we are now witnessing a shift in market dynamics. As macroeconomic conditions improve, there are encouraging tailwinds to support growth from here. This is incredibly exciting, as we start from a point where the Fund trades at a discount to the market but should achieve much faster revenue and earnings growth. We're confident that the Fund is well-positioned for the future and we will continue to look for fast-growing, dynamic, smaller companies in Japan.

## Stock Level Attribution

### Top and Bottom Ten Contributors to Relative Performance

#### Quarter to 30 September 2024

Stock Name	Contribution (%)
RakSul	0.7
Appier Group	0.6
Descente	0.6
MegaChips	0.5
Kohoku Kogyo	0.5
Katitas	0.4
Cosmos Pharmaceutical	0.3
SWCC Corporation	0.3
Crowdworks	0.2
Yonex	0.2
Jeol	-0.6
Litalico	-0.5
Wealthnavi Inc	-0.5
Vector	-0.5
TOYO TANSO CO., LTD.	-0.4
Harmonic Drive Systems	-0.3
FUJIKURA (CABLE)	-0.3
Horiba	-0.3
Lifenet Insurance	-0.3
Ishikawajima-Harima Hvy.	-0.3

#### One Year to 30 September 2024

Stock Name	Contribution (%)
SWCC Corporation	1.3
Lifenet Insurance	1.1
Kohoku Kogyo	0.8
Yonex	0.5
Noritsu Koki	0.4
Peptidream	0.4
Seria	0.3
Outsourcing	0.3
Tsugami	0.2
MegaChips	0.2
GMO Financial Gate	-1.2
Litalico	-1.1
Bengo4.Com Inc	-1.0
Nakanishi	-0.9
SIIX Corp	-0.8
eGuarantee Inc	-0.8
Iriso Electronics	-0.8
I-ne	-0.7
Enechange Ltd	-0.7
Nittoku Co Ltd	-0.7

Source: Revolution, MSCI. Baillie Gifford Japanese Smaller Companies Fund relative to MSCI Japan Small Cap Index (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.

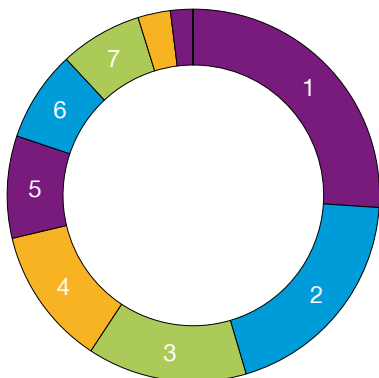
New Purchases

Stock Name	Transaction Rationale
Amvis Holdings, Inc	Amvis is Japan's leading operator of chronic and terminal care hospices. It addresses a growing need represented by an ageing society, growing cancer rates, rising hospital service costs, and longer hospital stays (which are over 3x longer than in other developed countries). Despite being the leading operator, and more than twice the size of the next largest player, its share of the nursing care market is still less than 10% (which in turn is just 20% of care for terminally ill patients) so there remains a large runway for growth. Its edge comes from scale and reputation, which confer advantages in recruitment and ensure higher bed occupancy and profitability when compared to peers. The shares were weak on the back of concern over regulatory changes, providing a good entry point, and we are confident that Amvis can mitigate any negative effect. The company is also founder-run, with a large stake in the business.

## Complete Sales

Stock Name	Transaction Rationale
Akatsuki	Akatsuki is a mobile gaming company that generates most of its profits from the hit game "Dragon Ball Z: Dokkan Battle", which the company has developed in partnership with Bandai Namco, one of Japan's largest entertainment companies. Our initial hypothesis was that the company would use the profits from this game to diversify its business into new and rapidly growing areas like e-gaming. However, we have owned the shares for over six years now and have been very disappointed by management's lack of progress in this regard. The company also has nearly two thirds of its market cap in net cash and has been extremely reluctant to use this cash pile to either increase dividends or conduct a large buyback. For these reasons we have therefore decided to sell our entire holding and reinvest the proceeds in more dynamic growth ideas in the portfolio.
Daikyonishikawa	Daikyonishikawa is a specialist manufacturer of high margin plastic parts for cars and generates the vast majority of its sales by selling to Mazda. The business has struggled with weak demand over the past few years, mirroring the fortunes of its largest customer Mazda. In addition, it is also facing rising input costs which we believe would be difficult for the company to pass through given its client concentration. We struggle to see a scenario where demand for the company's products bounces back as car makers, including Mazda, appear to be pivoting away from traditional models to electric vehicles and this is an area where Daikyonishikawa has less exposure to at the moment. Overall, we believe the business environment for the company is likely to remain tough long-term and we have little faith in management's ability to develop products and solutions that would be relevant for a new class of vehicles. We therefore decided to sell the entire holding in the company.
Descente	Descente is a sportswear manufacturer with a portfolio of well-known brands like Le Coq Sportif, Umbro, and the eponymous brand Descente. Japanese trading company Itochu, along with China's leading sports apparel chain Anta Sports, had been the majority shareholders of the company. Recently, Itochu announced a tender offer for Descente, offering a near 20% premium to buy out minorities and take Descente private. Since we originally took a holding in 2019, the shares have risen nearly three-fold so this has been a very good investment for shareholders. Given our status as a minority shareholder and the strong share price performance since we took a holding originally, we feel there is less upside potential and therefore decided to sell our holding.
Enechange	Enechange has three businesses: an energy comparison and switching website, a SAAS product for utility companies to monitor and optimise their operations, and an EV charging business. Recently, management disclosed that the company's auditors have refused to sign off on its full year financials for the current fiscal, citing improper accounting practices related to its EV charging subsidiary. As a result, the company will be required to restate its financials over the past couple of years in accordance with proper accounting regulations. Whilst there is no evidence of outright fraud, this incident does highlight significant deficiencies in compliance and audit practices. For a small company, we feel this is a major issue that will take considerable time and effort to sort out, not to mention significant management time. Whilst wanting to be supportive of young, disruptive companies like Enechange, we feel the current issues are deep rooted and will have a material impact on the company's future growth prospects. As such, we have decided to sell our entire holding in the company.
Nabtesco	Nabtesco is a leading manufacturer of precision gears, as well as a variety of other equipment used in the transport, construction and industrial sectors. For a while now its businesses have struggled to grow in a sustainable fashion; this is due to cyclical factors, as well as structural headwinds such as increasingly stiff competition from Chinese peers. Moreover, the company's high-margin gears segment, the jewel of the business, has yet to see a sustained post-COVID recovery. To overhaul the company would require a serious round of restructuring, and we are not confident that management are able or willing to see this through. We therefore decide to sell our holding.

## Sector Exposure



		%
1	Industrials	26.0
2	Information Technology	19.4
3	Consumer Discretionary	13.9
4	Financials	12.0
5	Communication Services	8.9
6	Health Care	7.9
7	Consumer Staples	7.2
8	Real Estate	2.8
9	Materials	1.9
10	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
Lifenet Insurance	Provides a range of life insurance products and services.	3.5
Yonex	Sporting goods	2.9
Cosmos Pharmaceutical	Drug store chain	2.8
KATITAS	Real estate services	2.8
Nifco	Value-added plastic car parts	2.7
Nakanishi	Dental equipment.	2.5
RakSul	Internet based services	2.5
JEOL	Manufacturer of scientific equipment	2.5
Toyo Tanso	Electronics company	2.4
Anicom	Pet insurance provider	2.4
<b>Total</b>		<b>27.1</b>



Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	6	Companies	None	Companies	None
Resolutions	51	Resolutions	None	Resolutions	None

Company Engagement

Engagement Type	Company
Environmental	Avex Inc., Kamakura Shinsho, Ltd., Kohoku Kogyo CO.,LTD., MegaChips Corporation, Torex Semiconductor Ltd.
Social	Amvis Holdings, Inc.
Governance	Avex Inc., Harmonic Drive Systems Inc., Iriso Electronics Co., Ltd., JEOL Ltd., KATITAS CO., Ltd., Kamakura Shinsho, Ltd., Kohoku Kogyo CO.,LTD., MegaChips Corporation, Nakanishi Inc., Nittoku Co.,Ltd., SHO-BOND Holdings Co.,Ltd., Shima Seiki Mfg.,Ltd., Torex Semiconductor Ltd., Toyo Tanso Co., Ltd., istyle Inc.
Strategy	Kohoku Kogyo CO.,LTD., Nakanishi Inc.

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 %
Lifenet Insurance	3.5	SpiderPlus	1.0
Yonex	2.9	CrowdWorks	0.9
Cosmos Pharmaceutical	2.8	Kamakura Shinsho	0.9
KATITAS	2.8	MonotaRO	0.9
Nifco	2.7	Kumiai Chemical Industry	0.9
Nakanishi	2.5	Amvis Holdings, Inc.	0.8
RakSul	2.5	Anest Iwata	0.8
JEOL	2.5	Horiba	0.8
Toyo Tanso	2.4	Iriso Electronics	0.6
Anicom	2.4	CellSource	0.6
MegaChips	2.4	Soracom Inc	0.6
Avex Inc.	2.4	istyle	0.4
Appier Group	2.4	Weathernews	0.4
Kohoku Kogyo	2.3	Nippon Ceramic	0.4
SWCC Corporation	2.3	Shima Seiki Mfg.	0.3
PeptiDream	2.0	Torex Semiconductor	0.3
Infomart	2.0	Demae-Can	0.1
Noritsu Koki	2.0	Cash	0.1
GMO Financial Gate	1.9	<b>Total</b>	<b>100.0</b>
Asahi Intecc	1.9		
GA Technologies	1.9		
WealthNavi	1.7		
INFORICH	1.7		
Tsugami	1.7		
Sho-Bond Holdings	1.7		
OSG	1.6		
Bengo4.com	1.6		
Nittoku	1.6		
Vector	1.5		
Cybozu	1.5		
Global Security Experts Inc.	1.5		
Optex	1.5		
Gift Holdings Inc	1.5		
MatsukiyoCocokara	1.5		
Oisix	1.4		
Nikkiso	1.4		
I-ne	1.4		
LITALICO	1.4		
TechnoPro	1.3		
eGuarantee	1.2		
SIIX	1.2		
GMO Payment Gateway	1.2		
Seria	1.2		
Harmonic Drive Systems	1.2		
oRo	1.1		
Kitz	1.0		
KH Neochem	1.0		
Shoei	1.0		
Jade Group Inc	1.0		

Please note the fund information contained within this document is proprietary information and should be maintained as such and not disseminated. The content is intended for information purposes only and should not be disclosed to other third parties or used for the purposes of market timing or seeking to gain an unfair advantage.

Share Class	Share Class Inception Date	ISIN	SEDOL	Annual Management Fee (%)	Ongoing Charge Figure (%)
Class B-Acc	02 September 1999	GB0006014921	0601492	0.60	0.67
Class B-Inc	01 April 1983	GB0006014582	0601458	0.60	0.67

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.

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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.