
THE BAILLIE GIFFORD JAPAN TRUST MANAGER INSIGHTS

Lead manager of The Baillie Gifford Japan Trust, Matthew Brett, talks about the past year, the current positioning of the portfolio and the opportunities ahead.

The value of your investment and any income from it is not guaranteed and may go down as well as up and as a result your capital may be at risk.

This film was produced and approved in November 2020 and has not been updated subsequently. It represents views held at the time of recording and may not reflect current thinking.

For a Key Information Document for The Baillie Gifford Japan Trust PLC, please visit our website at www.bailliegifford.com

Matthew Brett (MB): Hello, my name is Matthew Brett and I'm the manager of the Baillie Gifford Japan Trust. I want to give an update following the Japan Trust's full year results to 31 August this year.

Over the year the net asset value total return was 20.9% - well ahead of the benchmark TOPIX total return of 16.3% in sterling terms. There are plenty of long-term comparisons in the annual report but since it's the Japan Trust's 40th year anniversary I thought it might make sense to look back over how things have gone over the full 40-year time period.

Since inception the net asset value total return had been 10.6% per annum, which compares to the TOPIX total return of 4.7% per annum – now obviously past performance is not a guide to a future performance.

Turning back to the recent past, the largest positive contributors to performance over the year came from physical-world businesses whilst negative contributions came from the internet area in the main.

Business conditions for physical-world businesses improved significantly from the very difficult times that they were having in the early phases of the pandemic.

Outsourcing (a staffing company) was the leading contributor to performance. This is run by the energetic, Mr Doi, who has been growing and internationalising the business over time, in an effort to reduce its sensitivity to economic shocks - and that seems to be working.

Other significant contributions included Raksul, which does logistics and printing, DENSO, which is Toyota's electronics parts company, and Misumi, which does dies and small parts. Also, Topcon, which does positioning systems. All of which are clearly physical-world businesses.

Significant negative contributors mainly came from the internet area. The share prices of these businesses had generally been good performers in the previous year as they were resilient to the challenges of the novel



coronavirus and, in some cases, even benefitted from increased demand for their services. But this year they were generally eclipsed by the rapidly improving profits for the physical world companies.

Throughout this period corporate Japan has shown admirable resilience. Japanese companies have continued to pay good dividends representing a significant improvement from their actions during the global financial crisis, when there were some quite significant dividend cuts.

Although it may seem surprising, in the midst of a global pandemic, the income of the Japan Trust has continued to grow strongly due to the efforts of the underlying companies. Therefore, the Board is recommending a final dividend for this year of 6 pence, representing an increase of a third on the dividend of 4.5 pence last year.

In the last six months we took just three new holdings, in line with our long-term investment philosophy. These are Unicharm, which does nappies and sanitary products, BASE, which does ecommerce software, and TKP, which does serviced offices and conference rooms.

Although these companies have many differences, they each share the feature of significant inside ownership, with either the family or the founder having between 15% and 50% of the shares outstanding. We believe that this alignment helps to ensure shareholder interests are high up the priority list.

We continue to be really excited about the investment prospects for internet businesses within Japan. Large holdings within this area include Softbank, SBI, GMO Internet and Rakuten.

And also, we continue to have a good exposure to robotics and automation related companies. So here top holdings include FANUC and Misumi, and also within the related agricultural mechanisation area, Kubota.

So, in summary, last year the Baillie Gifford Japan Trust delivered a net asset value total return for little over 20%, the Board decided to recommend increasing the dividend by a third, and we remain excited about the prospects for growth investing in the Japanese market. Thank you.

Annual Past Performance to 30 September Each Year (%)

	2017	2018	2019	2020	2021
The Baillie Gifford Japan Trust PLC	34.0	18.8	-3.3	6.6	16.3
TOPIX TR	12.6	13.0	-0.3	2.4	15.6

Source: Morningstar. Share price, total return.

Past performance is not a guide to future returns.

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The trust invests in overseas securities. Changes in the rates of exchange may also cause the value of your investment (and any income it may pay) to go down or up.

The aim of the trust is to achieve capital growth. You should not expect a significant, or steady, annual income from the trust.

The trust can borrow money to make further investments (sometimes known as “gearing” or “leverage”). The risk is that when this money is repaid by the trust, the value of the investments may not be enough to cover the borrowing and interest costs, and the trust will make a loss. If the Trust's investments fall in value, any invested borrowings will increase the amount of this loss.

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