JAPAN TRUST AND CITYWIRE WEBINAR

Though 2022 was tough for investing, hope remains that Japanese companies can overcome a challenging backdrop.

The value of the trust's shares and any income from them can fall as well as rise. Capital is at risk. Past performance is not a guide to future returns.

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Natalie Breen (NB): Hello and welcome to this live programme from Baillie Gifford where we're talking today, with Matthew Brett, manager of the Japan Trust at Baillie Gifford. My name is Natalie Breen from Citywire and I'll be talking to Matt about how he runs the trust for about 25 minutes. We're particularly exploring the themes of companies experiencing permanent change and those that are facing temporary setbacks. We'll then be taking your questions, which you can submit at any time via the Q&A box in Zoom. So Matt, thank you very much for joining me today, it's lovely to see you.

Matthew Brett (MB) Thank you, Natalie.

NB: This time last year, we didn't really have an idea of what was instore for us, could you give us a little overview as to how the trust has really faired 2022?

MB: As you will know, 2022 was a difficult year for the trust and as we started 2022, we were feeling pretty optimistic at that point. It seemed like COVID was starting to fade away, at least in terms of being a pandemic and that things would generally get going again. Actually, what happened, as we know, there was the Russian invasion of Ukraine and that's had various knock-on consequences in terms of causing higher energy and commodity prices and higher inflation. That's created quite a difficult background for growth managers, in general, and the Japan Trust wasn't an exception to that. So, we were quite a bit behind the index over the 12-month period. On the other hand, more optimistically, the underlying businesses in Japan continue to perform solidly.

So, for example, they were able to continue increasing their dividends over the year and in the trust's year, the board of directors increased the dividend paid by the trust by 50 per cent year-on-year, reflecting the strong performance of the underlying holdings. So, I think how the year went was difficult in performance terms, but there were things still to be optimistic about.

The disruptions that you've mentioned of last year are hopefully, transitory and this is certainly as a team that you've been exploring a lot on the Japan Trust. Could you explain to us what you mean by permanent change versus temporary setbacks and how that's playing into your portfolio?

As investment managers, our job we see, as being to try and understand the differences between companies that are experiencing simply a short-term setback in their performance versus those where something's permanently changing and we're going to have to change our minds. Over the course of the pandemic and more recently, we've had lots of people asking us questions about what are we doing? Are we moving into reopening plays? Are we moving out of certain areas? Really, what we've been doing is the same thing as we usually do, which is trying to find those companies that have good long-term prospects and put the money into those and try and take the the money away from areas that we're becoming more concerned about. So, I can go into some examples in a minute, perhaps.

NB: Why don't we go straight into that. Could you, perhaps, give us some examples of companies that you think are experiencing permanent change?

MB: So, for example, in the past in Japan, we used to invest a lot in photocopier companies or we used to invest quite a lot in traditional financial companies. Both of these are areas where change hasn't been especially kind to the prospects of those companies. So, for example, in the copiers area, it's not that copiers don't exist anymore, it's not that the Japanese are bad at making copiers, it's simply that they're much less used in the modern world than they were in the past as a result in improvements in screen technology and connectivity. So that change is something we've had to adapt to over the time and it's resulted in us selling those types of holdings. On the other hand, and there's been examples more recently, where we've had to consider a permanent change.

Two that I would highlight would be first of all, we've been moving out of the Japanese car companies over the past couple of years. Now, for the first time in my career, we don't hold a single Japanese car assembler within the portfolio. This really reflects the change that's happening in vehicles, the change in drive train as people are moving towards pure electric vehicles. Also, in the longer-term, you have increasing computer elements to cars. Advanced driver assistance systems maybe in the end, thinking about self-driving. Effectively, we've come to the view that in general, the Japanese seem to be very good at producing the cars of the near past, but probably, they're not well positioned for the cars of the future.

There may be an analogy here, to those copier companies or for example, to as mobile phones developed, Nokia went from being a very strong company to one that really was outcompeted as the technology changed. That's a bit what we fear within the car area. Similarly, we've been thinking a lot in recent years about the prospects for hydrocarbon extraction and becoming more cautious about that as a growth opportunity, given the environmental challenges that it presents and also, given the real improvements in renewable ways of generating energy. So, over the past 12 months, we've exited our final hydrocarbon extraction company, INPEX, which is a gas producing company.

Here, we've become increasingly worried about the long-term prospects, but also, the war in Ukraine has resulted in higher short-term prices and an improved share price for us to move on from that. So those are a couple of things that we've been moving on from that we think are examples of permanent change that have been quite unhelpful and we have to move away from.

NB: Why do you think it is that Japanese car producers haven't been able to keep up with the EV trend?

MB: Well, I think that's a really interesting question. If we go back in time, Toyota especially, felt that the future of cars was going to ultimately be fuel cells, hydrogen fuel cells and that you would have a technology journey that went from combustion engines to hybrids, to ultimately, fuel cells. They didn't really believe in pure battery vehicles and for a number of years, didn't invest in that area. They believed the range anxiety wouldn't be solvable. What we've seen is, actually, a combination of improved battery technology and more rapid charging means that the range anxiety is in the process of being solved. Then what you end up with is a simpler solution to the question of how a car moves.

A pure battery electric vehicle is a lot simpler than a hybrid vehicle and, in the end, can be made more cheaply. So effectively, the Toyota group had quite a bit misstep in how they saw the technology evolving. Recently, they've been trying very hard to produce pure battery vehicles, but in the meantime, a lot of competition has entered the market. The obvious high-end competition that we all know about with the likes of Tesla, but there's also a great deal happening at the low end with many, many upcoming companies coming from China, India, other parts of Asia that could be quite serious competitors in the medium-term as well.

NB: So then let's look at the other side of it, which companies are experiencing a temporary state of flux and how are they navigating these choppy times?

MB: Again, during the COVID pandemic, what has caused a number of challenges for some businesses and one particular one that has been challenged has been cosmetics within Japan. Japan has some very strong skincare companies, the likes of Shiseido and also a bit more niche, but POLA. These are very strong skincare brands, but the result of the pandemic, it's been a very bad temporary setback for these companies. What happened was, first of all, people were going out less, they were wearing masks more.

Also, the whole tourism-related market completely shut down because Japan stopped having any tourists into the country. This resulted in a very bad setback in profits.

On the other hand, we look forward, we've got complete conviction that skincare as a category isn't going to go away. People have been doing it, literally, for thousands of years. In addition to that, we know that the Japanese skincare brands are very highly regarded, particularly, in Asia. So, as we resume tourism, we would expect to see quite a rapid improvement in earnings again for those companies. We think that people have been too worried about their long-term prospects, when in fact, this is just a short-term event. Another example from the past, actually contrasts a bit with the car companies is, we also, in the earlier phases of the pandemic, took a holding in Bridgestone, the tyre company.

At the time, people were travelling a lot less than they are at the moment. Told to stay at home, quite literally. The advantages of the tyre is that it's very difficult to design them out of a car. We've talked about the changes that are happening in terms of how a car is powered, how it drives. Even the car, in the long-run, may be able to drive itself in some situations, but no one has yet managed to get rid of the tyres on the car or the tyres on the plane or anything like that. So those remain very big opportunities and that's the kind of situation that we're talking about, where a temporary setback in a good quality business, does provide us with opportunities to invest, taking a longer-term view.

NB: Often, it's hard to see the difference between those companies that are experiencing permanent change and those that are just facing setbacks and sometimes, that's only visible with hindsight. So how are you actually making those decisions and comparing the two trends with companies? Does it have to be that you're there on the ground? How do you arrive at those distinctions as a team?

MB: Clearly, it's something that with the benefit of hindsight, tends to be quite obvious, but at the time, is more complicated. So, for example, when we look at copiers, one of the reasons why we really knew that they weren't coming back was, during the Global Financial Crisis, as the recovery started to happen from that, the profits of those companies didn't really recover. People had really just stopped buying copiers in the scale that they were before. We knew from our own experiences that we were printing less. We were looking at things more onscreen. We realised at that point that it was time to move away from this area. So, the initial move always has an element of trepidation to it, but you have to think really, what are the long-term prospects of these companies?

Similarly, with the car area, the big concern for us is actually, less Tesla, because Tesla is mainly competing, at this stage, at the higher end of the market. The real concern for us, the up-and-coming companies coming out of China at the low end. These are very mass-market cars and we've got cars for sale in China at the moment, that look a bit like a Fiat 500, but pure battery electric vehicles trading in the single digit thousand dollars to buy one. That's very, very competitive versus a lot of the smaller Japanese car companies. So again, we just have to think how is likely to go? What are the threats?

Whereas, the contrast with the likes of the skincare or the tyres, is we just can't really workout how these companies become obsolete in a technology sense. It's really quite difficult to see how that can happen. As long as people have faces and a desire to retain their youthful looks, then I think skincare is going to continue to exist. Actually, the growth prospects are very good as people become wealthier over time. Similarly, although people in Japan often group together, tyre businesses have been similar to a car business. That's a very superficial analysis. Tyres are much like shoes for the car and that means there's a great deal we don't have to worry about and we can rely on Bridgestone's strong brand and high global market shares to keep going as a strong business.

So that's how we try and do it. Inevitably, we know from time-to-time we get errors in those things, but I think by trying always to look five years plus, into the future and consider how things are changing, that provides us with the best chance of trying to end up with a portfolio positioned in the right type of areas.

NB: So, has this year, this year of devastating global impacts, has this been a time for you to really crystalise your thinking of assessing companies?

Well, I think we're always trying to crystalise our thinking with regard to companies. I guess in many ways, the point I'm making is that actually, our thinking, our turnover in the portfolio remains pretty much, at similar levels to prior to the pandemic. We're doing much the same thing on a day-to-day basis. Trying to find the companies with good prospects and put a bit more money into them, trying to take money out of those where the prospects have deteriorated. The turnover on the Japan Trust in the financial year to the end of August was between 14 per cent and 15 per cent, which is very consistent with where it's been in the past. So the rate of change has actually been quite similar to the past, but underlying that, I think it is quite a big change for us to have significantly less exposure to the traditional Japanese car companies than ever before.

I think it has created, the current setback has created a bit of an opportunity, perhaps, for us to take new positions in the skincare area, which has been an area that we've long admired, but at the same time, it's often been quite an expensive area to buy into. This setback has provided a type of opportunity for us, albeit, you never want to have these opportunities. We'd all prefer if the world wasn't having these difficulties. From an investment perspective, the volatility does create elements of mispricing that provides investment opportunities. At the same time, the core exposures of the portfolio, I think relating in some of the internet related businesses, that remains unchanged and a big weighting in some of the robotics and automation businesses. That also remains unchanged. So, most of what we're doing is keeping going with what we've got, but at the same time, where there's opportunities to try and evolve the portfolio, we try.

NB: Let's have a look and chat a little bit about Japan itself and what it's like to be there at the moment. What is post-COVID Japan like in particular? From a European point of view, sometimes it can be easy to lump Asian countries together and just assume that it's all draconian apps and lockdowns. How is Japan actually fairing?

MB: So, I think that would be an important nuance to draw out, actually. Within Asia, there's been quite different approaches to the pandemic. So, as we know, China's taken a very top-down, quite authoritarian approach requiring regular PCR testing, very regular lockdowns and so on, to try and suppress the virus, albeit they're now moving away from that. Whereas, Japan, are much more relying on people doing the right thing type of approach. So, the regulation has been very soft touch. There were no rules about wearing masks in Japan. It's just everyone thinks, it's probably sensible to wear a mask on the train so I think I will. That means that as Japan's been coming out of the pandemic, you don't necessarily have a hard moment which the pandemic is there and then it's not there. It's a smoother journey in Japan.

So I went to Japan in September on an investment trip and at that point, I would say Japan, the general attitude was still quite an anxious one about COVID. A bit like maybe we had in the UK, at the start of 2022, where people were seeing that we were past the worst of it, perhaps, but still, people were pretty cautious about being with other people and being in small spaces, et cetera. Then I went again, I took the opportunity actually, to take a holiday to Japan over Christmas in order to take the family, before Japan fully reopens and everyone ends up going to Japan. It was interesting to me, how things felt more relaxed over that time than they did in September. Yes, people are still wearing masks in Japan, but they've always been quite cautious and will always wear masks quite a bit in the winter anyway.

A bit like the UK, some of those masks are no longer quite as accurately over the nose and so on. People are getting a bit more relaxed and within restaurants and so on, people are getting more relaxed. I think now, we have the opportunity of the reopening of tourism where at the moment, the only tourists going to Japan have really been from Europe and the US, but with China reopening, we will see Chinese tourists returning to Japan. That's a big opportunity for Japan. I think surveys of Chinese consumers, when you ask the Chinese, where would you like to go on holiday? Japan is one of the most favoured, if not the most favourite destination. I think from a Chinese perspective, it's a very appealing destination to go to. So, I think we will see that emergence coming.

I think the other thing to say is, I was very worried about Japan at the start of the pandemic, just from a people perspective because Japan has quite an elderly population and we know COVID is more dangerous for people who are older. Japan managed to do quite well at not letting the virus get going too much and then, has had a very successful vaccination programme based on Pfizer, which is a very effective vaccine. So, I think they're in quite a good position for reopening, albeit they've got at the moment still, a lower level of herd immunity than we would have in the UK. So, I think the trajectory in Japan is very much like Europe, but they're probably still 6, 12 months behind where we are. I would hope that come the summer, things in Japan will probably feel pretty normal again. As the weather warms up and people become more relaxed again, that would be my hope.

NB: What will the effect of Japan opening up to tourism again, how will that play out in your portfolio beyond cosmetics?

MB: Well, I think it will generally be helpful for a variety of different companies. So, we have, for example, Park 24, which operates carparks, in the portfolio. As you say, it will be helpful very directly for the cosmetics companies. Another helpful thing, I think is it will be helpful for Japan as a whole, to have a bit more contact again, with the outside world where the Japanese approach to the pandemic, has been quite successful. It has been quite isolationist as well. I think you're seeing people from outside Japan having a bit of challenge, seeing people doing things in different ways. I think all of that's healthy and I think it will be good to see it coming back again.

NB: You've talking in the past, about incremental improvements of antiquated systems in Japan. Could you talk a little bit about how those improvements are actually playing out and give us some examples of them?

MB: I think in Japan, again, a bit like COVID, the trends in Japan when it comes to the internet and the use of technology in the service sector, are pretty similar to the UK, but generally, a bit behind. So for example, you now have taxi hailing apps in Japan, but for example, the main taxi hailing app is only available in Japanese. You're seeing much more, now, automation happening in the restaurant sector. So for example, at the front end you're seeing QR codes being used to load up a menu. You can then order your food as you would in some UK establishments using that system. Also, we're seeing opportunities in the backend. So, for example, ordering in restaurants for new supplies, historically has been a very paper-based and telephone-based system.

We invest in a company called Infomart, which helps to automate that to get the orders direct to the suppliers. So, I think a lot of these things are just continuing to steadily improve. We're seeing also changes in terms of online document signing becoming more common in Japan. That's providing opportunities. We're seeing much more use of credit cards in Japan and a move away from cash. Again, that's an opportunity. So I think sometimes, people say Japan is different and yes, it is different to the UK, but these things also rhyme and those technology changes apply in Japan as they do here. Maybe, you know, it gives us a bit of an insight having seen how things have played out in some other countries, to understand how, in the end, they're playing out in Japan.

NB: How is this playing out in labour markets overall? They're strained at the moment, but there are signs of improvement. What's your take on the labour market at the moment?

MB: So, in general, Japan has had very high employment for quite a while. One of the challenges of course, that Japan's been fighting over the years has been deflation. In recent years, they've gone from deflation to neither inflation nor deflation. With the current environment, we're seeing genuine inflation for the first time in a while. What will be interesting, I think, is to see how that plays through in the next few months. The spring wage round is going to be coming up shortly and it will be interesting to see what kind of wage rises are coming through in Japan. So at the moment, Japanese society is a lot less militant at the current time than, for example, what we're seeing here because the inflation is still roughly 4 per cent in Tokyo. It's not at the extreme levels we've seen here.

Nonetheless, the labour market is quite tight in Japan. People can feel the inflation. If you survey them, their concern is, as it would be here, cost of living. I think it will be quite interesting to see whether we start for the first time in a long while, to get some more meaningful wage rises coming through. So, we have to wait and see. I still think one difference with Japan though, is that inflation expectations in Japan are probably still a lot lower than they are here. So it may be that this year isn't quite the year when we get the really hard push on the wages, but I think hopefully, we'll see a bit of movement.

NB: Do you think the incremental improvements also apply to companies' approaches to ESG?

MB: So, I think on the ESG front, I think Japan has generally improved over the years. We used to have more governance related issues in Japan than we do now and the number of independent directors on boards has improved. Introduction of the stewardship code in the corporate governance code has also helped. I think now we've got more independent directors in Japan. I think they're more focused on what the shareholder needs than perhaps they were in the past and that's quite helpful. I think that's the kind of thing that we're seeing in terms of dividends coming through. If we look at charts of dividends increasing in Japan or the rates of buybacks, there's really quite a lot going on there. A lot of what people would have wanted to see has been coming to pass in recent years, even through the current difficulties. So, I think all of that's pretty encouraging, actually within Japan.

NB: In a few moments I will turn to audience questions and I can see quite a few coming in, so thank you for that. So, if you do want to put a question to Matthew, please do submit it using the Q&A box. Matt before we close this formal part of interview, perhaps you could give us a little bit of an overview as to your approach. Obviously, you're looking to buy companies when they're small, watch them grow over the long-term. Has that philosophy become harder to execute in such a volatile world and do you think it's going to stand up over the next five years?

MB: Japan has always been quite a volatile place to invest. I guess we've had, in the past, things like the Global financial Crisis which caused a lot of volatility. So to some extent, there's always some problems happening in the world, but I do agree with you, the past two, three years, to layer a pandemic followed by a major war and shock to inflation, has been quite a lot of volatility to take. I guess the real proof will be in the longer-term, as to how the approach is standing up. Certainly, we're not doing anything differently in terms of shortening our time horizons or things like that. What we're trying to do is still to really focus on which companies are the ones that in the long-term, are going to show good growth. Put the money into those companies and then try and make those companies grow over time.

I suppose, the other thing to mention is that we are feeling quite optimistic at the moment, as a result of some of the setback in share prices. So, we have been increasing the gearing in the trust and today, the gearing is about 19 per cent, which is at the higher end of where we would go to. So we are trying to lean in to the current setback and trying to say, look, accepting all the problems that have happened, where are the opportunities? The areas we've been tending to add to have been more of some of those internet businesses, where we believe the long-term growth prospects are still excellent. Also, especially with more into the skincare and other companies that have had a temporary setback, but we're confident in the long-term. So that's what we've been up to and the trust remains big exposure to the internet, big exposure to robotics and then a variety of other things as well.

NB: Great, Matt thank you. That leads us quite nicely on to the beginning of some of our audience questions. One of the first ones is, "Investors will expect you to be cautious over start-ups, but there's evidence of lively activity in the area. A small proportion of them will grow dramatically so, are you tracking them?"

MB: Yes. So, we're always interested in new companies because every company has to start somewhere. We're fortunate within the Japan team that we also have dedicated small-cap investors. So Praveen Kumar and Paul Schwerda are involved in looking after the small-cap funds. We run Shin Nippon, which is a specialist small-cap investment trust which gives us good visibility into new listed companies. Also, invests in a handful of unlisted companies. The Japan Trust only invests in listed companies. So, we're waiting for companies to, perhaps, be a little bit more mature. In Japan, companies do tend to list earlier than they do in, for example, the US. So we have a lot of small, but listed companies to choose from, which I think is quite helpful.

At the moment, I think that technology change, which is continuing to happen is definitely a good time for entrepreneurs to be trying new things. As you say, not everything will work, there will be a lot of failures, but at the same time, some of these companies have to start somewhere and some of these will inevitably be the companies of the future as well.

NB: Another question on your holding then, it says, "SoftBank is still one of your largest holdings, despite them posting losses last year and having to tighten investment controls. What's the case for you behind SoftBank?"

MB: Yes so, SoftBank's been the largest holding in the portfolio for a number of years now. Across the piece it's been helpful in terms of performance, but you're right that there were some quite big losses reported over the past 12 months as a result of revaluations in some of the holdings. The positive case for SoftBank remains that we like a lot of their underlying investments. Mr Son's invested in a lot of earlier stage start-ups where there is this technology tailwind which should be helpful. We also particularly like Mr Son as an investor. He was involved in investment in the original TMT boom. He's got a 40 year plus track record now, of successfully investing albeit, with quite a lot of volatility. People nowadays, remember him for his successful investment in Alibaba.

Before that, he invested very successfully in what was then Japan Telecom and before that, he invested fairly successfully in Yahoo and Yahoo Japan. So there's been a whole variety of different successes over the years and I think when times get tough, it's that experience that's actually quite helpful looking forward. So, the first reason is, we like the assets. The second reason is we like the manager and the third reason is, he's been trading at a big discount to the net asset value in recent times as well. That's the further encouragement for us in terms of thinking this is particularly attractive. So, the shareholding in SoftBank right now, it's a bit over 5 per cent. So, it's been higher. So, we have taken a little bit of money off the table as there have been other opportunities available to us.

SoftBank in share price terms, has actually been one of the stronger of the internet related businesses. So it's given us funding for things that are even smaller and perhaps, less well appreciated, but yes, it remains a significant part of the portfolio.

NB: Onto the next question which asks, "It seems a good time to own Japanese banks. What are your holdings in this area and are you looking to increase?"

MB: So, in general, we have more in Japanese financials than the underlying index, but we tend to have slightly nuanced exposures in the area. So, for example, we have a decent sized holding in Sumitomo Mitsui Trust Bank and the important word there is 'trust'. Which means that it's basically half an asset manager and half a bank. So that's quite different to your typical megabank. We think it's a better-quality business in the long-run. We also have a big holding in SBI, which is an online brokerage business, which used to be the largest online broker in Japan. It's now overtaken by Nomura to just be the largest brokerage in Japan. We also have holding taken relatively recently in MS&AD Insurance, which is a big general insurer in Japan. The largest general insurer.

So, we have a significant financials exposure. So I think there are reasons to think that the prospects for financials may be better in a higher interest rate environment, but having said that, we we're really interested in is, which financials can share over time. That moves us towards the slightly more differentiated business models and also, more online related business models. So we also, for example, have Rakuten, which is best known as an ecommerce company that have been trying to push into telecoms recently. Also has a big online bank and is the biggest credit card operator in Japan. So, there are holdings within the portfolio that don't look like a bank, but actually, are financials as well.

NB: A few questions around performance, which you've addressed during the session, but one direct question is, "You've dropped near the bottom of your peer group in terms of performance over the last five years. Do you think your strategy can reverse that in the next five years to come?"

MB: Well, I would hope so. Clearly, we have to wait and see. When it comes to performance, the last 12 months has been a difficult period and that definitely has impacted the longer-term numbers as well. It's always difficult for me to compare against other investors because I won't understand so well, how their philosophies and processes work. So in that sense, we tend to measure ourselves more against the Japanese index and try and think about it a bit more like a time trial rather than a race against competitors. In the sense that what we're trying to do is to be better over the long-run and have wider exposure to Japan. I think there are lots of exciting companies to invest in, in Japan, but also, within the Japanese index.

There are companies that do have their structural challenges. Some of the less differentiated manufacturing businesses, for example, are constantly struggling against the rise of competition from lower cost countries. So obviously, we don't own those types of things within the portfolio. I think the other thing that would make me feel relatively optimistic right now is that when we compare the valuations of the companies in our portfolio, they're at a very similar level, perhaps even slightly below those of the wider market, which seems quite a good starting point to be in, given that we believe these are businesses with better long-term growth prospects.

Obviously, I can't guarantee or promise the future and we need to be cautious about what we say about that, but certainly when we see individual companies, there is a lot to excite us at the individual company level and we're running the same process that we've run for years. It's not been a very helpful process over the past 12 months, but at the same time, we are taking a long-term view with what we're trying to do.

NB: One question here is, "Will the Bank of Japan blink soon on interest rates?" What your take on what the bank is doing overall?

MB: That's a properly difficult question. I simply don't know the answer to that. I suppose, what I would observe is the Bank of Japan's policy has all been around trying to generate higher inflation and it seems that we now have higher inflation. Actually, because we have higher inflation and still an extremely low interest rate policy, the real rates in Japan are getting more and more negative at the moment. So I think what most people seem to be debating is not whether the Bank of Japan will begin to tighten monetary policy, but how fast and when they'll do it. Sorry, I don't have an insight on that or the detail of that. We're more into thinking about individual companies.

I think when we reflect on the fact that one of the great challenges for Japan post the bubble was deflation and we do seem to be out of that at the moment. I think Japan's one of the few places in the world where a bit of inflation might be a good thing rather than as we were seeing here, a bit too much of that.

NB: That leads on to our final question for this afternoon. It says, "There are question marks around whether Japan can create a virtuous cycle of rising wages, consumption and prices. What's your take on this?" I guess that must be, perhaps, based on fast retailing. The owners of UNICO perhaps putting salaries up.

MB: Yes. I think this is really what Japan has been trying to get to isn't it, for a while. Is this what the Japanese would call 'animal spirits' where people have the confidence to invest. People have the confidence to ask for a wage rise or to put a salary up, etcetera. I think it's always difficult to judge where exactly we are with that, but it feels to me, going back to Japan that Japan's still in a good place. There's not, I think, been a great deal of economic scarring as a result of COVID. I think as a result of that, Japan is in quite a good place to move forward based on a lot of really good technology in Japan. A lot of people who work very hard in Japan. A lot of the fundamentals of wealth creation. Private property, people being allowed to keep their wealth when they make it are very much in place in Japan.

I think that long echo from the Japanese bubble is now really very much in the distant past and hopefully, we have moved away from that slightly grim deflationary type of situation into a country that quietly is still moving forward.

NB: Matt, thank you so much. That's all of our questions and really, all we have time for. So, thank you for your insight and commentary today.

Annual Past Performance to 31 December Each Year (Net %)

	2018	2019	2020	2021	2022
Baillie Gifford Japan Trust	-18.0	21.8	35.3	-10.4	-21.7
TOPIX	-8.4	14.6	9.6	2.0	-4.1

Source: Morningstar and Tokyo Stock Exchange. Share price, total return in sterling.

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Baillie Gifford & Co and Baillie Gifford & Co Limited is authorised and regulated by the Financial Conduct Authority (FCA).

The specific risks associated with the Trust include:

- *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 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.*
- *The Trust can buy back its own shares. The risks from borrowing, referred to above, are increased when a trust buys back its own shares.*
- *Market values for securities which have become difficult to trade may not be readily available and there can be no assurance that any value assigned to such securities will accurately reflect the price the Trust might receive upon their sale.*
- *The Trust can make use of derivatives which may impact on its performance.*
- *Investment in smaller companies is generally considered higher risk as changes in their share prices may be greater and the shares may be harder to sell. Smaller companies may do less well in periods of unfavourable economic conditions.*
- *The Trust's exposure to a single market and currency may increase risk.*

Further details of the risks associated with investing in the Trust, including a Key Information Document and how charges are applied, can be found in the Trust specific pages at www.bailliegifford.com, or by calling Baillie Gifford on 0800 917 2112.