Hello and welcome to this programme from Baillie Gifford. The latest in a series of webinars where we talk to the managers of the business' different investment trusts. Today, we're talking to Praveen Kumar and Praveen is manager of the Baillie Gifford Shin Nippon Trust. My name is Richard Lander of Citywire and I'm going to be talking to Praveen about how he runs the trust for around 25 minutes. So, Praveen, thank you very much for joining us today. How are you?

Thanks for having me. Not bad, yourself?

Very good thank you. So, looking back in the past three years, it's been a pretty tough period for you and the trust. So how would you explain what has happened over that period?

So, you're absolutely right, Richard. We've endured a pretty torrid last three years, especially for Japanese high growth small-cap companies. Over the past three years we've had a series of significant headwinds and unfortunately, these headwinds have come in quick succession, which has meant that there's been absolutely no respite for growth small-caps in Japan. I'll give you a few examples of what I mean by headwinds. By far the biggest headwind has been the currency. Now, as a lot of people know, the Japanese Yen versus the US Dollar has blown past 150 yen to the dollar and it just continues to weaken. Now, why that is a headwind is because a weak yen is fantastic news for exporters, for example.

Some of the stocks, both at the small and the large-cap end of the spectrum that have done exceptionally well in the last three years odd, have been these big exporting companies. If you throw in things like artificial intelligence, electric vehicles, the drive towards renewable energy, all these long-term trends, if you throw all these into the mix, you can easily see why the biggest beneficiaries have been these large exporting type companies. The big automakers, the big semiconductor equipment manufacturers. When you look at the share price, it's incredible. It's just gone through the roof and more. These stocks are continuing to attract a lot of capital. So unfortunately, what that has meant is that there's absolutely no interest at all for Japanese high growth small-cap companies.

That asset class has almost become untouchable. Added to that, another significant headwind has been this entire theme around shareholder returns and corporate governance. So that's again, a very, very strong theme. A lot of companies are increasing dividend payments. Buying back shares, but these are all very, very traditional ex-growth companies, almost like value stocks. Unfortunately, they've also attracted a huge slug of capital. So fair to say that it's been an absolutely unfavourable backdrop for growth small-caps, which by the way, are continuing to grow their business in terms of sales and profits quite rapidly.

That's given us the background. So, thank you for that. Obviously, you have your beliefs about investing, but also, we have the circumstances that you've found yourself in. Have you adjusted the portfolio over this three-year period, in response to the changing situation out there?

Yes, definitely. So, I would say we have made bit shifts in terms of the structure of the portfolio and, also, in terms of how we think about idea generation. So, I'll take the second point first. So historically, we have completely ignored sectors of the Japanese economy where we struggled to find growth drivers. So, some examples would be areas like utilities, foods services. These are all very, very fragmented, very traditional. Really difficult to find growth companies, in general, in these areas. So historically, we've hardly had any money in these sectors. One of the learnings we've had in the past three years is to force ourselves to look a bit harder in these sectors because what we've realised is we've been a bit lazy in terms of writing these sectors off.

Through that exercise of pushing ourselves, doing a bit more analytical work around these areas, one idea that we came up with, which we actually ended up buying around May this time last year, was a company called SWCC Group. So, it's a company that makes electrical wires and cables, but it's a company that's undergoing a big, big turnaround in terms of its profits. The President, who's the first female President of the company's 60, 70-year history, she's making a lot of changes in terms of focusing on returns, margins. That's resulted in profits growing by almost 30% in the last year. So, this is not a rapid sales growth story, but more a profit margin expansion story. Since we bought the shares, they've more than doubled.

So just try and look for almost esoteric growth ideas, rather than stay too fixated in internet or online. That's always been a favourite hunting ground. Going back to my first point in terms of changes to the actual portfolio, I've taken the view that given the really difficult period that we've seen for small-caps in Japan in the last three years, the valuation disconnect, or valuation gap between large-caps and small-caps is almost at record highs. Which means to say that large-caps have rerated significantly at the same time as we've seen a significant derating of small-caps. So, you're getting smaller companies growing at 20%, 30% in terms of sales and profits at 12, 13 times price to earnings ratios.

So really nothing in the valuation for the growth that these companies are putting in. So, in a way, we are almost dialling up the growth factor of the portfolio because we've taken a simple view that if not now, then when? At the moment, things are so depressed, everyone hates this asset class. No one is interested. There are a lot of headwinds, some of which I spoke to you about earlier. So, I think this is the point where we are seeing ballgames that you actually get to see very, very rarely. That's what we're trying to take advantage of.

What is it that drives your continued belief in the Japanese smaller company sector? It's quite esoteric and quite tight. So, what's its USP for a fund manager like yourself?

I think at a philosophical level, if you want to call it USP or broader philosophy is, change is the only constant as they say. The Japanese economy for a variety of reasons, is in dire need of change. It's my belief that a lot of that change in Japan is being brought about by these dynamic entrepreneurial small and medium size businesses. If you look at the large companies, these are all international businesses. They hardly generate meaningful sales or profits from the domestic market, which to be fair, is quite mature. So, all of the growth opportunities overseas. In doing so, they've not really made an attempt at addressing some of the structural issues. Whether it's dealing with a labour shortage or dealing with the lack of natural resources that Japan has. Japan is the world's second largest importing of L&G.

So how do you solve that problem of being reliant on friendly countries overseas, for a critical part of your economy? It's actually small and medium-size enterprises that have identified these sorts of areas and are actually attacking these areas with new business models, innovative services, to try and solve some of these issues. I can give you one example. In Japan, if you are a restaurant owner and you want to order food supplies for your day-to-day business, you have to be with a network of almost 20 to 30,000 food suppliers. Quite often, there are various middlemen involved as well. Usually, the way you go about doing that is using a phone or a fax machine, believe it or not. We're talking the world's third or fourth largest economy here. Advanced economy.

So, what all of that means is that your overall costs are quite high. The amount that the customer ends up paying is quite high. There's such a time lag in terms of when you place the order to when you get the goods delivered. So overall, it's very inefficient. One of the companies we've held for over ten, 15 years now, is a company called Infomart. So, they've developed a cloud-based system that connects food retailers, restaurants with food suppliers through this software platform. Where they can easily check stock at various distributors, order online, everything's electronic. The invoicing has moved, becoming electronic. That's resulted in a huge amount of efficiency gains.

So simple example of companies identifying structural problems and addressing them through interesting and unique solutions. It's only small and medium size companies that are doing this. That is why I believe these are the companies that a likely to drive much needed change in Japan. It's not the large blue-chip companies.

One thing you have in common with small and medium-cap managers around the world is this valuation gap. It happens in Europe, it happens in the States, everywhere. What I want to know from you is, what's unique about the Japanese smaller companies' market that investors cannot find anywhere else?

You have a whole set of some really unique businesses models that for a number of reasons, some of which I explained, you are unlikely to find anywhere else. The reason for that is because the problems that they're addressing are unique to Japan. I'll give you a simple example. This example of food ordering would be one. You don't really get to see those sorts of business models elsewhere. Another example I'd like to give is the legal profession. If you take the legal profession in Japan, almost 80% of the people who should be seeking legal advice, whether it's for some family matters or there's been a car accident, nine times out of then they don't. They just don't bother with that. The reason for that is access to lawyers and legal firms is so difficult for the average man or woman on the street in Japan. It's far easier for them to just say I'm not going to bother with it.

Also, these legal firms are very, very expensive to hire, especially for individuals. You don't really tend to have these personal injury lawyers that you see so many adverts for here in the UK, for example. So, one of the companies that we've owned for almost a decade now, is a company called bengo4.com. Bengoshi in Japanese means lawyers. They started off by creating this online, very easy to access, free platform for individuals. Which they can actually contact and get in touch with lawyers. For the lawyers, they've created within that platform, an almost LinkedIn type system, where lawyers can create their profile, give the history of the cases that they've dealt within the past, a pricing mechanism.

So complete transparency, ease of access and within that they've added bits and pieces over the years. One of the other bits and pieces that they've added is an electronic signature option, which is very similar to DocuSign. I'm sure a lot of people would have used DocuSign to electronically sign documents. Their service is called CloudSign it's the number one service in Japan. So that makes it even easier to deal with-, move away from paper-based documents to digital documents. So, another example of a company that's trying to solve quite a unique Japanese problem and there are loads of companies and problems like these, that are quite specific to Japan, which is why I say these sorts of companies, you're unlikely to find anywhere else.

You spoke recently, you talked about the potential for significant outperformance when conditions return to favouring small-caps. Now, you also talked earlier about the valuation gap being so enormous, but what other signs do you see beyond this valuation gap that we might be at this turning point now?

At a very simple level, if you take a step back and think about it, the last three or four years have been almost like the golden era for a lot of these cyclical capital-intensive businesses. Whether it's the car companies, whether it's the resource companies, whether it's the semiconductor companies, there's been a boom in profits for these companies. On the semiconductor side, just to take one example. Obviously, the whole hype around AI and the way Nvidia and the Magnificent Seven share prices have done, that's spilled over into Japan and unfortunately, in Japan we don't have an Nvidia or the equivalent of the Magnificent Seven. So, the market has basically looked for the second-best option and they've zeroed in onto these big semiconductor manufacturers like Tokyo Electron or Advantest, which is a big testing company. So, their share prices have gone through the roof as earnings have grown quite a bit.

It's simply the law of large numbers. These companies are very, very traditional cyclical. They can't keep growing at 30%, 40% year-in and year-out. We're already seeing that Toyota had record profits, the highest in its history almost. The forecast for next year is for sharp falloff in profits, but the valuation is still anchored to backward looking profits. So, I think it's simply a case of the elevated valuation levels and almost the earnings normalisation or almost an earnings downcycle for these large-cap blue chip exporting type companies that I think should cause investors to take a step back and reassess. The investment merit of these companies. To me it almost feels like they've done their stuff.

They've gone up, but from here it's going to be really, really difficult to see them growing at those rates. On the other hand, if you look at the small and medium-size companies, because of the nature of the business, they're not capital heavy, they don't have factories. These are all very, very scalable businesses. They can keep growing at 20%, 30%, 40% year-in and year-out for a very long period of time. Also, because they're targeting these large markets where those specific problems persist. They are on very, very low valuations at the moment, which is the valuation gap that I was mentioning. So, at a very simple level, a reappraisal of where we are in the cycle as far as large-cap currency sensitive companies are concerned versus how far the small-caps have been derated and how quickly they're continuing to grow, I think that should turn the headwind into a tailwind almost.

Are we talking about companies on single figure PEs and obvious bargains? You mentioned the weight of money going elsewhere, but is there not the coverage in the Japanese market that investors should be finding these bargains and ready to jump in?

Absolutely. I think the problem is, in the last three or four years, what we've seen for investors in general, it's been a pretty easy game to play. So basically, you've got some two, three-bit themes in Japan and globally. So, if you talk about Japan, it's the theme around shareholder returns, corporate governance. It's the theme around a lot of activist investors getting involved in companies in Japan. If you talk about global themes, it's been mostly around AI, electric vehicles, it's been about chip manufacturing. So, it's been quite easy for people to chase these themes and invest in a very narrow set of companies that are the big beneficiaries of these themes.

Whether it's Toyota or Tokyo Electronics or these big semi manufacturers. The problem they're likely to face now is that the realities of life eventually seem to have caught up with these companies. The future isn't looking as rosy as the last three years for these companies. So, I think the problem has been that people have not really taken the effort or even a wee bit of interest to look at what's happening in the small-cap world and there's quite a lot of exciting stuff happening in the small-cap world. I think when investor interest returns to the space, you could see a pretty sharp bounce back. These things can be very volatile, both on the downside as well as on the upside. I think that's what we're must likely to see, given where we are in the cycle today.

You mentioned a couple of stocks already, but perhaps another that is screaming buy me at such a low valuation.

A couple of stocks that we own in the portfolio. One is called GA Technologies, which is an online AI fuelled real estate company. So, it's automating the entire value chain of buying and selling a property and they mainly deal with investment and rental properties. So really phenomenal business. It's already got over a billion dollars of sales. It's actually profitable and margins are expanding. It's on something like 0.4 or 0.5 price to sales. That's exactly the multiple that you saw the Japanese regional banks trading on a few years ago. So, this is an extreme level of valuation for a company that's only eight or nine years since its founding, has breached the billion-dollar sales mark and it's quite unusual to see a company scale so quickly.

It's making profits and margins are expanding. So, one example of a fast-trading business trading at valuations as if it was a value stock. Another example I'll give you, a company called Oisix, which is like the Hello Fresh of Japan. Now, through a series of acquisitions and organic growth, they're actually forecasting pretty close to almost $2 billion worth of sales. Again, it's a very profitable company. Margins are expanding. They're forecasting significant profit growth I think in the order of 40% to 50% for the next year. The price to sales multiple on this stock is again, below 0.5 times. I think it's something like 0.3. So, it seems to me like the market's pricing this as if it's going to go bust, which isn't the case at all.

So hopefully, these two examples and there are loads more across the portfolio, across sectors, that to me almost indicate that there's absolutely no interest at all in these companies at the moment because these themes that I spoke about earlier, have been so strong and people have found it easy to make money from these themes.

You've mentioned several things here, whether it's real estate or food ordering, these are problems that the west seems to have digitalised five, ten years ago. Those of us of a certain age can remember Japan as a digital leader and a leader in all forms of technology, what went wrong that it's now only developing these products to solve these problems?

I would say nothing has actually gone wrong. I think the way people have understood Japan has not been entirely accurate. So, what you say is absolutely right, that Japan has been and, in some respects, is today a leader in certain aspects of technology. I think there's a bit of a nuance here. When you say technology, you've got hardware and software. What Japan has been really good at has been on the hardware side. That remains true even today, whether you look at the manufacturing sector, semiconductor sector or the car sector. Even if you go back 20, 30 years from today, Japan has always had a big, big gap when it comes to software. Which is why there's no Microsoft-like company from Japan. There's no Amazon from Japan.

So, software has been Japan's Achilles' heel almost and that's the gap that a lot of these small and medium size companies are looking to fill. So, one of the things that Japanese smaller companies are really good at. They might not be good at coming up with innovative or brand new first to market technology, but what they're really good as is using existing tools, existing technologies to come up with really creative business solutions, answers, business models that actually fit the Japanese market, the Japanese economy. I think this focus on the domestic market, I think a lot of people mentally under appreciate how significant the growth opportunities are within Japan. The moment you say this is a Japan focused company, doesn't have any overseas sales, people almost start applying a mental discount.

Saying this should not trade at a higher valuation, etcetera. If you simply look at fundamentals and how fast the company is growing. The growth rates at a lot of the companies in our portfolio would be comparable to a similar company in the US. In fact, in the US you see a lot more loss-making companies. You'll hardly see any loss-making companies in Japan and even in our portfolio, the percentage of companies that are persistent loss-makers would probably be around 1%, 2%.

Let's talk about tech a bit more because obviously, they're driving momentum in other developed markets. Are there companies in your portfolio, beyond these gap filling services if you like, that are really pushing the boundaries in the way that we see companies in the States and Europe doing?

Yes. We run a fairly diversified portfolio of 73, 74-odd stocks. Our favourite hunting ground has been these types of online software type businesses, but we also have a fair few manufacturing businesses. Mostly on the semiconductor equipment side as well. So, if you talk about companies that are really pushing the boundaries, you can talk about hardware companies and software companies again. On the software side, companies like Bengoshi, the lawyers' business company or the food ordering company. Another business we own is another company called APIA, which is interesting. It's a Taiwanese company that happens to be listed in Japan. So, it's run by a Taiwanese husband and wife team. It's an AI company that offers four or five AI products that help retailers in increase their customer retention, increase the lifetime value of customers.

Basically, helps them generate more and more sales. The more sales they generate, the more money this company makes. So really clever business model and that's been growing at 30%, 35% and it's profitable and margins are expanding as well. On the hardware side, we have companies like Jeol. This is company that's developed the world's first equipment that allows semiconductor companies to use electron beams to write directly on a silicon wafer. So typically, at the moment, the way you would do it is you would put a stencil between the electron beams and the wafer. The stencil transfers the circuit pattern onto the wafer. Jeol has developed a machine that can directly write on the silicon wafer.

The stencil that's used, that's probably one of the most expensive bits of the whole process. So, they've taken an entire chunk of cost out and they've got almost 100% market share in this product and it's growing quite rapidly. So, one example of a company on the hardware side that's actually pushed the boundaries and developed a genuinely unique global product.

Obviously, your portfolio's heavily domestic focused, but are any of these companies making inroads overseas and taking advantage of the yen's weakness?

Yes. Some of our companies, like APIA for example, is growing its sales much faster outside of Japan than in Japan. So, they've got about 20% or 30% sales from Japan, which means that 70% to 80% of the sales of coming from outside of Japan. That area they're growing quite rapidly, especially in the

US. They seem to be making very good headway with some big client wins. We do have quite a few companies that tent to have a global outlook and they're targeting the global market. That tends to be true more on the manufacturing side. So, companies like Jeol for example, that I mentioned. Another company we own in the portfolio is called Horiba, which we've owned since 2005. So quite a long time.

This is a company that's famous for exposing the Volkswagen emissions scandal a few years ago. So, it was Horiba's emission testing kit that exposed that scandal. So, their emission testing business is still continuing to grow quite fast, despite electric vehicles taking a lot of share because environmental standards are becoming evermore stringent. They've also got a semiconductor equipment business that's again, part of this whole artificial intelligence and chips getting evermore complex theme. They're benefitting from that as well and that's a global business. They have about 80% global market share, 70% to 80%.

We've spent a great 25 minutes talking about these questions. I'm now going to turn to some of the questions from the audience that have come in, in advance. Now, you're not going to be surprised if some of them are quite focused on the share price. So, I'll start with this one, which I think sums up quite a few of them. "The share price has fallen markedly and this might be a great opportunity for new investors, but existing investors are still feeling the pain. How long do you think it will be before we start to see the share price rise again?" It's around 1.15 at the moment and this viewer says, "When will it get back above £2?" Possibly something you can't specifically comment on.

The first thing I'd like to say is the pain that shareholders have felt, that is shared pain because I, myself in a personal capacity, am a significant shareholder. So, I completely acknowledge and empathise with that. I think as we've been discussing, Richard, what we've seen happen with the share price of Shin Nippon, very much reflects just the complete lack of investor interest in the Japanese small-cap, especially the growth small-cap asset class. Just to emphasise, just to give you a datapoint that hopefully gives you an idea of how massively out of favour this sector is. Historically, the bedrock of support for Japanese smaller companies, especially the growing smaller companies, has been the domestic retail investor.

Come what may, they've always provided a certain level of support for these companies, whether it's IPOs or buying these stocks. Based on the Tokyo Stock Exchange data, every single month in 2023, that's every single month of last year, domestic retail investors, cash-based investors have been net sellers. Which gives you an idea that even the last bastion of support for this asset class has fallen. The reason why that has happened is because of all the things I've discussed earlier.

There are some very powerful themes that people are looking at and where they feel they can make easy money. Just go buy some rubbish company that has a lot of cash on its balance sheet, has never paid a dividend in its life. Suddenly, management have a change of heart.

There's an activist investor involved and they're paying out huge amounts of dividend, the shares are going through the roof. So, a very easy way of making money. The problem I have with that is this is all a very timebound short-term investment thesis. These are not growth companies. Once the payout happens, once the insurance policy pays out, there's nothing left there. Also, the valuation of a lot of these companies just makes one weep to be honest. So, I almost feel that we're probably at the beginning of the end of this thematic rally. So, although as you said, it's quite difficult to predict when exactly smaller companies, growth smaller companies in Japan will come back in favour, I almost feel that we are at a point where we're already seeing tentative signs of interest coming back.

Once that gathers pace, once smaller companies continue to do their stuff, I'm pretty confident. You can go back in history over the last 30, 40 years, this pattern has repeated constantly, where you have a few down years, but the recovery tends to be very, very sharp. Firstly, that is what I would expect to happen as and when this asset class comes back in favour.

Another question, again, going through the same theme of the disappointment in the share price. He suggests that perhaps, something useful would be an independent review of the holdings. Perhaps that would be in the interest of the shareholders. Perhaps you can discuss that and how you do get outside opinions on the way you operate.

That's a very interesting question, Richard. In some ways for Shin Nippon, we have a board of directors and their remit is to look out for minority shareholders, for all shareholders. They take a very, very hands-on view in terms of questioning me on every individual stock in the portfolio. Making sure that I'm doing what I'm supposed to be doing. Shin Nippon is an unashamedly high growth portfolio. I don't think people should invest in Shin Nippon if they want a very smooth return. If they want a portfolio that will outperform every single year. They shouldn't invest in Shin Nippon if they want a portfolio that is more income-based, etcetera. It's not that kind of a strategy. It's an explicitly high growth, rapid growth strategy. Which means that it will naturally be very, very volatile both on the way up and on the way down. So that's the first point to make.

The second point worth making is we as a team, have undergone an exercise in the last 12, 18 months, where we've analysed every single stock that we own in the portfolio, making sure that it stacks up in terms of the original investment thesis. That it's still growing, sales are growing, profits are growing and that valuations look attractive. If all those boxes are ticked, we're more than happy to just be patient and ride out the storm. What we are not going to do is chase some short-term themes. Just because the flavour of the month or the year has been stocks that have a particular angle to them. Whether it's shareholder returns or corporate governance reforms. If there is no growth angle, long-term growth angle to those stocks, we will not buy those stocks, even though they might be in vogue at the moment.

From a shareholder point of view, the board has obviously announced a tender of 15% of shares at a 2% discount minus costs, if we don't outperform on a three-year view. I think what the board has put out as a commitment is a sign that they remain confident of the style and three years is a reasonable enough period in which if we don't deliver on the performance side of things, shareholders do have an exit option. The board is independent and they have their own views comprised of individuals that bring in insights from different fields. So, it's quite a robust process so I certainly am not getting a free pass. If I were to start buying value stocks or stocks that don't have any growth angle, I will be pulled up because that's not the job that's been given to me. My job is to pick high growth stocks, be patient with those stocks and hopefully generate a significant return for shareholders over a long-term view.

You mentioned the tender offer there and what it means and hopefully, the aim will be to reduce the discount. This is another question from a viewer, "Are there any other measures being taken to reduce that discount?"

We have also been doing share buybacks quite aggressively. The discount has narrowed a wee bit. I remember a few months ago we were at a discount of 17%, 18%. Now it's more around the 15% to 16%. So, it has narrowed a wee bit. Still, we are not happy with the current levels. I think you've got to balance the amount of shares that you buyback with the underlying fundamental performance. If the entire asset class is out of favour, no one wants to buy Japanese growth small-caps anymore, I feel no matter how many shares you buyback the discount can remain persistent. So, we're trying to balance the amount of shares that we buyback with trying to also work out in terms of getting the NAV, the net asset value growing again and outperforming the benchmark.

Naturally as and when that happens and the asset class comes back in favour, I almost think that the discount will naturally narrow. So, in answer to the question, Richard, I suppose it's fair to say we have significantly ramped up our buybacks. Also, with the caveat that we are not buying back blindly because we want to be a bit opportunistic about it. So, we are trying to be a bit more sensible in terms of how we conduct share buybacks.

Another interesting question from a viewer, "Would a sustainable rally in the yen favour your stocks versus the large-cap exporters?"

Historically, if you go back say the last 30, 35 years, growth small-caps and especially strategies focused more on the domestic market have generally done exceptionally well in a strong yen environment. So, in answer to your question, yes. If history is any guide, a strong yen environment, the yen starts to outperform, that should be hugely positive for the more domestic focused stocks, for the more smaller size stocks. In terms of revenue, the percentage of stocks held in Shin Nippon that generate over three-quarters of the sales from the domestic market is something of the order of 60% to 70%. So, a significant chunk of Shin Nippon's portfolio is quite domestic focused. So, as I said at the beginning of this webinar, the weak yen has been a significant headwind, but again, another example of how this headwind could potentially turn into a tailwind if we start to see the yen moving the other way. So yes, that should definitely help.

On the same subject of currency, do you hedge the trust?

No, we don't. I think the view that we've taken is, we don't have any expertise in predicting which way the currency would move and we've just taken the view that over the long run it usually comes out in the wash. So we don't tend to do any hedging.

Stick to stocks, not to currencies, that's fair enough. Another question that's come in is about the way Japanese companies look after shareholders. Traditionally it's not something that's been their primary consideration. Are they getting better at this now?

Definitely they're getting better and they're getting way better than what people had expected. You're seeing companies, as I said, loads of examples where companies that haven't paid a meaningful dividend in decades, they're suddenly announcing massive increases in dividends. Companies that haven't bought back a single share in their entire history are now falling over themselves to announce huge buybacks. So, it is fair to say that corporate Japan has changed for the better as far as shareholder returns and treating shareholders is concerned. Now, unfortunately whilst that's been good for the broader Japanese corporate sector, it's not been helpful for the smaller high growth Japanese businesses because the kind of small-cap growth companies that we invest in, they don't tend to have these problems.

They're already starting off at a much high level of corporate governance, where they are able to pay dividends, they're generally quite generous, but these are all quite immature companies in general, that we invest in. So, they don't have any dividend payments. They have very small boards with really experienced people. People with relevant experience. So, they're already starting off at a much better place compared to a lot of these other traditional companies. So, in a perverse way because these types of shareholder improvement stories have been getting all the attention, they've sucked a lot of capital from these smaller companies, which is why we've seen such a lot of weakness in the share prices.

A couple more questions, one's focusing on technology and you spoke of some of the interesting tech companies there. This question is more about Asia as a continent. "Has China replaced Japan as Asia's technology leader?"

It depends. Technology is such a broad-brush term. You can slice and dice technology in any number of ways. So, if you look at for example, electric vehicles, then definitely, yes. China is if not the, but on its way to becoming the world leader in electric vehicles. They've developed a phenomenal supply chain around that. If you talk about renewables, then that is another area that if not already, then China's definitely in my view, going to be the world number one. Again, they've developed a very, very sophisticated ecosystem, supply chain around renewable energy. If you drill down further in terms of equipment manufacturers, semiconductor manufacturing, that's an area where the Japanese are still holding their own.

Some of the Japanese semiconductor equipment manufacturers have almost global monopolies. The problem is, because these companies operate behind the scenes supplying some critical bits of kit, their names don't often come up. So, a lot of people, even in Japan, haven't really heard of these companies. So yes, it depends. When you say technology, what technology are you talking about? Generally, there are pockets where Japanese companies are still dominating at a global level. Equally, there are some of these larger sectors where China has raced way, way ahead not just from Japan, but the rest of the world to be honest.

The final question plays on what you mentioned a while ago about how it is a volatile area. The question is, "Is there anything you can do to make this trust and its performance less volatile?"

Tomorrow, if we decide that we have to change the mandate from being explicitly growth oriented to a more value oriented or to a steadier strategy, then perhaps, yes. That would mean that you're changing the product, you're changing the nature of the trust. You're changing the entire reason the trust exists. So, I think people invest in Shin Nippon or should be investing in Shin Nippon because this is quite a volatile, explicitly high growth trust. Certainly, they shouldn't be putting all of their money in Shin Nippon. Even I, as a manager, wouldn't advise that. This is a trust that over the long run, has a pretty strong record. If you look at ten, 15, 20 years it has delivered a decent level of return.

I think what has spooked a lot of investors, I suppose, is just the degree of underperformance, degree of weakness that we've seen in the last three years. That's more than wiped away a lot of the long-term strong performance. So just to remind viewers and investors that Shin Nippon has not been a serial underperformer. Obviously, you cannot, but if you ignored the last three years, it has a pretty strong performance record. So, people should remember that. Over the long run this trust has a pretty decent record. So, it's just a case of riding the volatility, being patient. Markets have cycles. You can't keep going from bottom left to top right all the while. If that's the kind of return. Smoothing's a thing you want, this is not the strategy. You're better off having more of an income-oriented strategy or something else. This is not for the feint hearted shall we say. So, I think you've got to ride the rough with the smooth with a strategy like this.

Thank you. That is all we've got time for I'm afraid. So, I want to thank you, Praveen, for your time and insights and thank you also, to the audience for watching and few your questions. We do have more sessions like this coming up. So do please keep an eye out for those if you found today useful. Until the next time, thank you for joining us.

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

	2020	2021	2022	2023	2024
Baillie Gifford Shin Nippon PLC	-21.2	68.8	-25.2	-14.0	-20.9
MSCI Japan Small Cap Index	-6.2	24.4	-7.7	5.4	12.4

Source: Morningstar, MSCI. Share price, total return in sterling.

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's risk could be increased by its investment in private companies. These assets may be more difficult to sell, so changes in their prices may be greater.
- 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.
- The aim of the Trust is to achieve capital growth and it is unlikely that the Trust will provide a steady, or indeed any, income.

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.