Baillie Gifford™

Japan Smaller Companies: manager update

September 2024

Investment manager Praveen Kumar and investment specialist Sarah Clark give an update on Shin Nippon and Japanese Smaller Companies Fund performance, portfolio positioning and the region's attractions for growth investors.

Your capital is at risk. Past performance is not a guide to future returns.

Sarah Clark (SC): Good afternoon, everyone. Thank you very much for joining this webinar on Japan's smaller companies. I'm Sarah Clark, and I'm one of the investment specialists for the strategy. And I'm joined today by Praveen Kumar, who's the lead manager for the Japan Smaller Companies fund and the Shin Nippon Investment Trust.

I know most of you are familiar with this strategy, but for those of you who aren't, this is a high growth strategy that invests in disruptive Japanese small cap companies that we think can deliver exceptional growth for the next five to 10 years. Our aim is to find these immature companies early in their life cycle, support them on their journey and exploit the extreme investment asymmetry that you can access as you come down the market cap scale.

Now, the plan for today is to have about a 20 minute discussion on what has been driving performance, why now might be the turning point, and where we're finding new sources of growth. We'll then move on to answer questions from the audience. So thank you to those who have submitted questions in advance of this webinar. And for those of you who would like to ask a question, you can submit them through the Q&A function. At the bottom of the screen, and we'll try and answer as many of those as we can today.

So turning to you, Praveen, I think the main question viewers will want answered today is on performance. So let's start here.

Performance has been very challenging since the end of 2021, and it's been a difficult period for our clients who are invested in the funds. Can you start by talking through some of the reasons for this week performance?

Praveen Kumar (PK): Yeah, sure. Thanks. Thanks for having me, Sarah. I mean, before I start, I must say that I completely empathize with the pain that shareholders have felt the last few years in terms of, you know, the poor performance. And the fact of the matter is, I am not just the portfolio manager, but I am a shareholder myself. So in terms of the significant amounts of money that I have invested in Shin Nippon

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and the smaller companies fund, including, you know, some from my pension as well. So I just want to sort of clarify that, you know, the pain is being felt equally with me as well.

I mean, having said that, I think there are sort of four broad reasons why the performance has been so weak. A couple of the reasons are more macro related. A couple are more specific to Japan. Now, turning to the macro related reasons, these might be already quite well rehearsed, well understood, but it's very simply just the fact that the interest rate environment that we've been in, where, you know, the rates had been low for a very long period of time, unusually long. And then obviously that had to reverse at some stage. And we are sort of seeing that reversal. And typically market psychology means that, you know, when rates are on an up cycle, when rates are, you know, being, you know, when rates have increased, you typically see, you know, a bit of a sell off in stocks and, you know, vice versa. So essentially a very unfavorable interest rate environment that's very obviously played against growth stocks in general.

But what has also hurt Japanese smaller companies in particular is the currency. So if you go back to the end of last month, for instance, you know, versus the U.S dollar, the yen over a five-year period had sort of, you know, depreciated by almost 50 per cent. Now that's a massive, massive depreciation. And what that, again, typically causes investors to think, and a lot of it is investor psychology. They automatically, you know, quite mechanically equate a weak yen with, you know, companies that are quite currency sensitive. So these two macro factors, unfortunately, have been significant headwinds for the high growth smaller companies in Japan.

The more domestic focused couple of reasons that have added to this perfect storm. The first one is just the availability of large cap cyclical currency sensitive companies. And part of the reason why a lot of these types of companies have done very well is, you know, trends like artificial intelligence, for instance. So obviously, NVIDIA in the US until at least a few days ago, you know, even over a long period of time has been a phenomenal performer. And AI has been a big, big ongoing theme. Unfortunately, in Japan, we don't have an NVIDIA. So investors have looked at what's the next best thing. And the next best thing to play the same theme are these large semiconductor equipment manufacturers where Japanese large companies have quite big global market shares. So investors have been piling into those types of stocks and they've done phenomenally well.

The other more Japan focused reason is to do with the level of shareholder activism that we are seeing. I mean, in my brief career doing Japanese equities, I've never seen so many private equity houses being active in Japan. And these are not just domestic outfits. We're seeing big, big global beasts like KKR, like Carlyle, like Bain Capital. Everyone's finally piling into Japan and committing huge amounts of capital. And the types of companies that are targeting are these very traditional old world Japanese companies with cash rich balance sheets, not grow, not much growth at all. But there's quite a strong kind of, you know, balance sheet asset efficiency angle to these names. And whenever markets have gotten a whiff that a particular stock has an activist involved, this been a lot of capital that's been sucked in to those types of companies. So if you look at, you know, even within our benchmark, which have been the top 10 top 20 performing companies in the last five years, these are dominated by large companies well over half a trillion yen market cap. Very, very cyclical. You know, there are steel companies that are trading companies and, you know, smaller companies that are more growth focused, more sort of dynamic have basically been completely forgotten.

And one final point, Sarah, before moving on, I think it's quite an interesting one. Traditionally, if you look at the Japanese small cap space, especially the growth small cap space, the domestic retail investors have formed the bedrock of support for this particular asset class. They've usually been very, very supportive, quite often owning quite large chunks of these types of companies. For the entirety of 2023, every single month cash-based retail investors, domestic investors in Japan, have been net sellers of Japanese high growth small caps. So fair to say the asset class as a whole has been completely out of favour, which has manifested itself in, you know, the weak performance that we've seen in the past few years.

SC: Thanks, Praveen. And maybe just to follow on from those comments on performance. I mean, as you say, Japanese small caps has very much been out of favour. So it'd be good to talk through why you still think this is an attractive asset class and in particular why your funds are best placed to deliver on this opportunity.

PK: Yeah, sure. So, I mean, it's quite striking when I look through our portfolio in the last kind of 12 months or even the last three years. It's quite amazing to see that nearly sort of 75 to 80 per cent of the names in the portfolio have lagged the benchmark in absolute terms. Now, that is roughly 53 stocks out of 67 stocks. Now, these 53 stocks can't all be bad. You know, in the past, these exactly were the stocks that were delivering really strong growth. And interestingly, the vast majority are continuing to grow really rapidly. So, you know, there's been a wholesale sell off of high growth stocks.

And some of the headwinds that I've mentioned earlier, as you know, you know, market markets behave in cyclical, in a cyclical fashion. So what were headwinds for us in the last three or four years, might very well turn into tailwinds. And that is exactly what we are seeing, we are seeing tentative signs that some of these headwinds are slowly turning, or moderating, and turning into our favour. I don't want to give the impression that we are fully our of the woods. But atleast we can start seeing light at the end of the tunnel for example, in the US, we've already heard the Fed, the Federal Reserve, talk about entering a rate reduction cycle. So that should be quite supportive from a macro standpoint. And interestingly, the yen, which had, as I mentioned, strengthened nearly 50 per cent in the past five years, it's actually weakened rather 50 per cent in the last five years. It's actually strengthened over the past 12 months. So the level of the yen versus the dollar 12 months ago, you know, versus the current level is actually lower. So even at the currency stage, we're seeing the yen strengthen and that headwind is slowly turning to a tailwind.

Now if you talk about direct impact on the portfolio, let's say if you take the weak yen or the strong yen, in reality, you know, two thirds, roughly two thirds of the portfolio is in companies that are mainly focused on the domestic Japanese market. They don't have, you know, any export type business, which means the portfolio is very, very heavily domestic focused. So what a currency does, doesn't really have an impact on the fundamentals on the sales and profits. Where it does have an impact is purely in terms of investor psychology, and the kind of discount rates they apply to stock valuations and things like that.

So some of these headwinds turning into tailwinds. And at a fundamental level, we are also seeing a lot of these stocks that have done historically in the last four years have done very well, these large cap cyclical stocks. Very simply if you look at their valuation, they are now trading on valuations that would make them seem as really secular structural fast growing businesses, which they are not. So slowly, the market is realizing that the multiples that these stocks are trading on doesn't make sense. And we have already seen a lot of these kind of winners over the last three, four years, having a bit of a steady downward kind of lurch.

So the hope would be that, you know, the tough period that we've endured in the last few years slowly starts turning in our favor. And I have to say that from a portfolio standpoint, from the kind of stocks we have in terms of sector exposure in terms of the growth rates that they're continuing to deliver, and they're starting valuation, given the compression we've seen. I would almost say that we are in a fantastic position at the moment.

SC: Thanks, Praveen. I guess just given your experience of having gone through this very tough performance cycle. Are there any kind of key lessons that you can share that you've learned over this period, or even talk about some of the changes that you've potentially made to your process as a result of this?

PK: Yes. So as you mentioned, Sarah, this has been a very, very tough period, not just for the Japanese smaller companies, but you know, for the whole Japan team. And obviously, we have been reflecting and trying to see where we've gone wrong and what can we do to, you know, make the process even robust to improve our stock picking process.

And obviously, this is with the benefit of hindsight. But one of the things that we should have done, which we didn't do is when we had that fantastic period during COVID. So you know, 2020, sort of late 2019, we should have realized that the valuations at that time had become very, very overstretched. To be fair, we did take a fair bit of money away, you know, a fair bit of money off the table. We reduced a lot of these internet stocks that had, you know, absolutely gone through the roof. In hindsight, we should have been a lot more aggressive. We should have not just reduced a lot of these stocks, but in some cases, we should have actually sold them. So yes, you know, we are trying to be long term, but we also should have been a lot more pragmatic, a lot more sensitive to what valuations are telling us in terms of, you know, companies' future growth prospects.

The other area where I feel, you know, we have historically, and especially in the last few years, we've given short shrift and which has come back to haunt us. And this is something that we are actively trying to correct, is ignoring entire parts of Japan's economy with a very lazy assumption that there are no growth companies to be found in these areas. So to give you some examples, sectors like, you know, the utilities, we've hardly owned anything in utilities for donkey's years. Sectors like, you know, capital intensive manufacturing, like steel manufacturing, etc. We've not owned anything in those areas. Resources, you know, there are not that many smaller companies in those areas, but we've not even attempted to look at those.

So trying to be, you know, less lazy and being a bit more active. And pushing ourselves to look a bit deeper, develop our understanding of these sectors and try and identify whether there are some opportunities here that might not be a classic high growth opportunity. It might be high growth, but a different type of high growth. So we are kind of, you know, forcing ourselves to go in that direction a bit more and not bury our head in the sand and just say, oh, you know, the internet or the technology stocks where we've traditionally had a bias. That's all we are ever going to invest in. So we are consciously trying to broaden our idea generation pool and process.

SC: And maybe just on that final point there around idea generation, are there a couple of examples that you can talk through of names that you have added to the funds that, you know, that aren't your typical growth company of where you would normally go hunting for those?

PK: Yeah, so very interesting and recent couple of examples. So one of the stocks we bought in May last year is a company called SWCC. So this is a company that makes electrical cables and wires and connectors. So this was more of a combination of a turnaround story, plus a company that seemingly was in the right place at the right time with the right sort of products. So this whole explosion in terms of AI related data centers, you know, there's a lot of inward investment happening in Japan and a lot of semiconductor fabs being built by TSMC, Sony, et cetera, in Japan.

All of those things require power consumption. They'll consume a huge amount of power. And Japan's infrastructure at the moment is, you know, very, very kind of ancient. So there needs to be a huge amount of investment to upgrade this. And that's exactly what we're seeing come through. And SWCC is bang in the middle of that sort of CapEx cycle, a CapEx boom almost. And traditionally the company had a lot of other loss making businesses, which they managed to sell. So the restructuring story has come through. And, you know, since we bought the shares in May last year, the shares have almost tripled. And we still think there's, you know, quite a bit of upside. It's only on 10, 11 times P/E. So one example of a company within the broader utility sector that going by historical approach, we would have just ignored.

Another company we've recently bought is a company called Gift Holdings. This is one of Japan's largest ramen chain operators. So it's basically a chain of restaurants that serves mainly different types of ramen. Now you think of ramen and food service chains, I mean, is that really high growth? But this is a company that's growing at, you know, 20 per cent in terms of sales, even faster in terms of profits. And it's less about what they sell, but more about the overall business model. So they have a franchisee business model where they don't charge their franchisees any fees. They just supply the raw materials and charge just for those raw materials. So the barrier to become a franchisee is quite low. So quite an interesting business model. So again, another example of a sector that traditionally we've just shunned.

SC: Thanks, Praveen. And a final question from me, but before we move on to that, just a reminder for viewers can submit a question at the bottom using the Q&A button. I can see a few are coming in now. But Praveen, you've just returned back from a very busy trip to Japan. You were there for five weeks. You met with over 60 companies. What were your main reflections from this trip?

PK: Yes. So I spent five weeks in Japan and I met about 67, 68 companies, which are across sectors. Roughly 40 odd per cent of those were existing holdings in the smaller companies funds in Shin Nippon and smaller companies fund. The rest were new ideas. I think there were two or three broad takeaways from me.

One, the most obvious and clearly visible one was inbound tourism. It's absolutely booming. And what was even more interesting was there weren't that many Chinese tourists at all. So a lot of the inbound tourists were either from Southeast Asia or interestingly a lot from Europe. For some strange reason, the apartment block that I was living in, there were quite a lot of Russian speaking tourists. I don't know whether they were from Russia or from Ukraine. But you know, safe to say, Japan is on track to break, you know, you know, all time records in terms of tourism. And that has positive implications for, you know, a number of our holdings that sell cosmetics, for instance, you know, tourists tend to spend, tend to spend, spend a lot on cosmetics, eating out, gift holdings, for example could be a beneficiary as well.

So, that was the first obvious observation. The second one was a number of companies I spoke to were talking about increasing prices. It almost felt to me that Japanese companies, especially those at the smaller end of the spectrum, have gotten over that psychological barrier, which historically had prevented them from being aggressive on pricing. So that was another big, big change. And we're already seeing evidence of companies actually putting through not one, not two, but three price increases already this year.

And the final one was on artificial intelligence. It was just striking how many companies are using, you know, from basic all the way to sophisticated artificial intelligence tools. And we obviously own, you know, two or three companies that are providers of these tools. So artificial intelligence seems to be proliferating, you know, a number of sectors within Japan, which should be good for, you know, the companies that we typically look at. So those would be kind of the two or three broad observations from my trip, Sarah.

SC: Okay, thank you. So I can see a few questions have come in now from the audience. And one actually is on AI, which you've obviously just touched on. But, the question is asking, what AI exposure does the fund have? And can you talk through some company examples there?

PK: Yeah, sure. So in terms of AI exposure, a couple of examples. One of the companies we own is a company called Appier, which interestingly was founded in Taiwan, but happens to be listed in Japan. So it's run by a husband and wife duo. And Appier makes, AI software that help retailers improve their sales efficiency, improve their return on investment, helps retailers increase the lifetime value of customers, help them better target customers. So it's all revolves around improving kind of the customer retention, the share of wallet, basically ultimately resulting in higher sales. And the interesting thing about Appier is, they charge their fees, the revenues are based on the success of the customers. So they don't charge a set fee for their products. They only make money if their customers make money. And the fact that it's been growing rapidly, profits are doubling year on year, suggests to me that, you know, the products have real, real value. So that's one example.

Another example would Bengo4.com, which is Japan's largest online legal website. So it connects people looking for legal advice with lawyers. And they've launched this platform called Legal Brain, which is basically a one-stop-shop solution for lawyers. So it helps lawyers not just market themselves, attract customers, but also prepare for cases. Gives them historical rulings of judges that they might be going against to try and work out, you know, how to proceed with a particular case. So really comprehensive platform that they've launched recently. So just a couple of examples of, you know, some AI exposure we have. There are quite a few other names as well, by the way.

SC: And the next question that we've got here, it's on corporate governance. So, you know, there's obviously an increased focus on corporate governance in Japan, which we've seen, you know, over the past couple of years. And the question is asking, is it presenting new investment opportunities?

PK: So corporate governance is a funny one because a lot of corporate governance related changes are concentrated more at the mid and larger end of the market cap spectrum. Because the kinds of companies we're looking at, they usually already have reasonably progressive corporate governance practices. So where possible, they're already paying decent dividends. Where possible, you know, they're buying back shares. They typically tend to have smaller and more relevant boards, you know, boards with people who can contribute sensibly to management. And can challenge management. Related to corporate governance, I suppose, when you talk of things like shareholder returns, shareholder activism, private equity. More recently, we've had, you know, a couple of instances where, you know, two of our holdings have been acquired via a management buyout in conjunction with a private equity. But by and large, corporate governance as a theme is probably more relevant for the large cap stocks, which is another reason why it's been a bit of a headwind. For, you know, high growth small caps.

SC: Thanks. And we've got a third question here it is asking what would the impact of the strong yen be on the funds?

PK: Yes. As I mentioned, roughly two thirds or thereabouts of the fund is focused on, is invested in companies that are focused solely on the domestic market. So there is, you know, relatively less lesser exposure to the sort of exporters, you know, the currency sensitive businesses that have been doing well in the last few years. In terms of the direct impact of a strong yen on the fundamentals, I would say there is unlikely to be a huge direct impact. Yes, we do have a few domestic focused companies that are big importers. So for those specific companies, a strong yen would be, you know, fantastic. But where I think it will have a more significant effect is simply on investor psychology. Because quite often you see a lot of investors who make the simple kind of correlation that we can buy exporters strong in by domestic stocks. And that's what we've seen happen, you know, time and time again. So hopefully, and which is why I said, you know, one of the headwinds in terms of a weak end could be a tailwind here. So hopefully we see that shift in investor sentiment coming through. And we're already seeing that in more kind of very short term numbers where performance has kind of picked up.

SC: Thanks, Praveen. And we've got another question that's on idea generation. So it's asking, how do you generate new ideas and filter through the thousands of smaller companies in Japan?

PK: Yes, so we don't operate on the basis of lists, etc. So our idea generation process consists of multiple inputs. One of the most important input is just visiting Japan. So I tend to do these types of long four or five week trips every three odd years. Normally every year I would go for a week. couple of weeks, maybe. So that's an opportunity to meet a wide range of companies, listen to their story. It's also an opportunity to meet existing holdings and see how they're doing, get an update. We also have a lot of companies visiting us in Edinburgh here. There's obviously IPOs as well, which is another important source of ideas for us.

But ultimately, you know, we are running a portfolio of, you know, between 40 and 80 stocks. We are not investing in the benchmark. Our active share tends to be exceptionally high 95-96 per cent. And we are looking for companies with a specific profile, which means that the large part of the market, we're probably not that interested. But we are trying to widen our pool, going back to the initial point I was making, and look more towards sectors where we feel some change might be happening and where there might be newer growth opportunities.

SC: Thank you. Okay. And we've got a question here, which I guess is more specific to the trust. And it's, are there any plans at all to change the non-hedged policy?

PK: So we've always had, you know, we've not had hedging within sort of our trusts. And one of the reasons for that is we are, you know, traditional plain vanilla long-only investors. And we've taken the simplistic view that in the long run, you know, the currency eventually comes out in the wash. Obviously, we've been on the wrong side of that bet in the last three or four years. And the hope would be that if you look forward the next five odd years, you know, we might be in a slightly different environment. And we don’t believe we have any skill in predicting the direction of the company one way or the other, we would rather focus on what we think is our skill in terms of analysing company fundamentals and looking at stocks that can go up a lot. So, that is kind of basic reason why I don’t think we are likely to go into that direction of having hedged share classes.

SC: So another question here, which says, you know, you've touched on a couple of the new buys, but can you talk more broadly about how you've positioned the portfolio in recent years?

PK: Yes. So obviously what I am trying to do here is position the portfolio on a forward-looking basis, hopefully on an environment that will be supportive for the kind of stocks that we own, obviously. And with that in mind, also factoring in, you know, what's happened with the currency, what's happening domestically, what's happened, you know, with a lot of these external drivers. The portfolio, I'm quite keen to have a much larger exposure to domestic Japan because there are quite a lot of good things happening in Japan, not just corporate governance. And invariably, it tends to be the smaller and medium-sized companies that have the most governance. So, I think it's important to think about, you know, whether it's the companies that have the most gearing to these kind of good things, whether it's change in mindset with respect to pricing, whether it's, you know, responding to labor shortage, you know, a lot of software companies developing tools to improve productivity, those sorts of things. So my idea would be, you know, I would like to position the portfolio with a lot more skew towards the more domestic-focused names. So that would kind of be my idea. So that would kind of be where I want to put it simply, but across different sectors, obviously.

SC: Okay. And maybe just one final question. So this one is focused on China. It's asking, is China still a large growth market for Japanese companies?

PK: I mean, that was another interesting observation from my trip. Virtually every single company that I spoke to, they just wanted to get away as far as possible from China. I mean, a couple of our portfolio holdings, it's a company called Nippon Ceramic, which makes sensors for cars. And Kohoku Kogyo, which makes, you know, components that go into batteries, car batteries. They are basically shutting down their entire production in China and moving them to Southeast Asia. So based on the feedback that I've got from a lot of these companies, it feels like the operating environment in China for overseas companies has become almost unbearable. Some of the things that these companies were telling me are things like, you know, there's intensifying competition from domestic competitors, especially at the low and mid end of products. Customers have become very, very price conscious. There's, you know, brutal price competition. The customers for these companies are consistently demanding, you know, price cuts. They want as low price as possible. And the regulatory environment has thrown up another extra layer of, you know, uncertainty. So, I mean, based on the feedback, at least it does seem like the China growth story, the China dream has kind of soured a bit for a lot of the Japanese companies. Now, whether that changes or not remains to be seen. But that's the situation we are in at the moment. And we have very, very little exposure to China in the fund.

SC: Okay. So, we've got a couple more minutes. So, there is just one final question. So, maybe just finish on this. Can you talk about valuations and how the fund compares with the market?

PK: Yes. So, that's the other sort of reason for my excitement where for the first time in a very long time, not Shin Nippon, if you take Shin Nippon as an example, and the smaller companies fund would be similar because there's a near 90 per cent plus overlap. So, they're one of the same for all its purposes. So, Shin Nippon has always traded at a big premium to the market simply because it's delivered, you know, double digit growth over, you know, rolling five-year periods over the past, you know, five plus years. So, it's delivered quite strong growth, both in sales and earnings. But obviously, there's been a massive multiple compression in the last few years as growth stocks have fallen out of favor. Now, what that has meant is that we are in a situation today where the portfolio and the benchmark, the MSCI Japan Small Cap Index benchmark on an EV enterprise value to EBIT basis, they're roughly the same. So, the benchmark would be, you know, around 12, just over 12, and the portfolio is at around 13 or somewhere thereabouts. But the level of growth that is forecast from the portfolio, both in terms of sales growth and profit growth, it's at least two times better than what you see in the benchmark. So, your starting point is a portfolio that's rated similar to the benchmark, not a huge premium. You know, the shares themselves are trading at a, you know, 14, 15 per cent discount. In terms of fundamental growth, there's still, you know, quite a lot of good stuff happening. We're seeing, you know, we are expected to see continued strong sales and profit growth. And hopefully over time as fundamentals start reasserting themselves as we see the growth come through, hope would be that the market kind of reappraises that and you get almost a double whammy where you get growth coming from earnings growth and you get, you know, return coming from, returns coming from a re-rating as well. So, you get, you know, best of both worlds. So, that's where we are at the moment.

SC: Thanks, Praveen. So, there's been no more questions that have come through. So, thanks very much for your time today. It's obviously been a very challenging period over the past couple of years. But could you maybe just finish up with some thoughts on why you think this will soon reverse?

PK: Yes. So, I think if you look at, you know, the Japanese small caps, especially the growth small caps asset class, as I mentioned earlier, they've been massively out of favour. You know, valuations have been absolutely smashed. The stocks that have done really well. You know, in some cases, really ridiculous valuations. So, at a fundamental level, we should see a bit of adjustment where you see capital moving away from the winners to the losers and the losers being the high growth Japanese small caps. So, that should help. A lot of the macro headwinds are turning into tailwinds. And also, if you look at the broader UK market and, you know, the Japanese small cap growth, small cap asset class, I would argue Shin Nippon is probably one of the only, you know, one of the only trusts that is genuinely small cap. You know, our average market cap is, you know, well below 150 billion yen. Whereas, you know, a lot of peers tend to have quite a few large caps in the portfolio as well. So, this is very much a totally 100 per cent focused genuine small cap portfolio. And as such, as and when that asset class comes into favour, comes back in favour, you should see a much bigger bang for your buck compared to some of the more kind of mainstream strategies. So, that's how I would, you know, put this forward.

SC: Okay. Well, I think that's a really good point to finish on. So, thanks, Praveen, for your time today. Thanks very much for the viewers who have joined us today. I hope you find that a useful discussion. If you do have any further questions on the funds, then please do get in touch. Thank you.

PK: Thank you, everyone. Thanks, everyone.

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Annual Past Performance to 30 June Each Year (Net %)

	2020	2021	2022	2023	2024
Baillie Gifford Shin Nippon PLC*	5.8	19.3	-38.3	-0.8	-18.0
Baillie Gifford Japanese Smaller Companies Fund**	10.8	10.9	-34.2	1.7	-17.0
MSCI Japan Small Cap Index	4.6	8.8	-10.4	8.0	7.5
MSCI Japan Small Cap Index plus 1.5%	6.2	10.4	-9.0	9.6	9.2
IA Japan Sector	7.8	13.2	-11.4	12.7	10.6

*Source: Morningstar, MSCI. Share price, total return in sterling.
**Source: FE, Revolution, MSCI. Share price, total return in sterling. Class B-Acc.

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The manager believes that the MSCI Japan Small Cap Index plus 1.5% 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.

Past performance is not a guide to future returns.

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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.

Further information can be found in the Key Investor Information Document (KIID) and the Prospectus. Both documents are available in English on request or by visiting www.bailliegifford.com.

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