

# JAPANESE EQUITIES

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Investment manager Donald Farquharson discusses Baillie Gifford's Japanese Equities.

Your capital is at risk.

**Donald Farquharson:** Japan offers the unexpected. What lies beyond the stereotypes of an aging population and confusing corporate structures, is access to growth potential hidden in Japan's world-class businesses.

As bottom-up investors focused on long-term growth, we choose to look beyond those stereotypes. We're unusual in a market that is often associated with value and macro investing strategies. This differentiation is of course a good thing. Coupled with the fact that the Japanese market is poorly covered by analysts, and so is often inefficiently priced, especially with the respect to longer-term prospects, we believe this creates a fantastic opportunity for generating attractive returns.

What we're looking to do is capture growth in all of its forms. From innovative ventures disrupting existing business models, to long-established companies that we believe can continue to compound for years to come. This results in diverse exposure to digital disruptors, premium brands and unique component makers.

Our edge lies in our patient approach, which is undoubtedly a product of our past. Having first invested in the 1960s, before running specialist Japan mandates in the 80s, we're one of the few managers that has been investing in the same way for over 40 years. Our first-hand experience of Japan's rich history offers us a strong insight into some of the significant structural changes at play.

Cashless payments offer an example of the distinctive opportunities available in Japan. Just over 30 per cent of transactions in Japan are cashless, compared to nearly 100 per cent in South Korea. This represents an enormous opportunity for those companies providing localised, digital solutions. And with an aging population globally, adjustments to global supply chains and the need for productivity growth, Japan's world-leading expertise in robotics and automation presents an exciting opportunity for our clients to capture.

Beneath the surface and beyond the headlines, Japan offers investors access to a diverse range of businesses with vastly underappreciated growth potential. By taking an active, long-term, growth-focussed approach, at Baillie Gifford we believe we're well-placed to take advantage of this opportunity.



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