

Japan Trust – Manager Insight

Matthew Brett, manager of the Baillie Gifford Japan Trust discusses performance and returns for 2022.

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

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

It has been a difficult broader investment background over the past 12 months, with the war in Ukraine, rising global inflation and interest rates, as well as lingering impacts from Covid-19, especially in Asia. However, inflation remains low in Japan, the weak currency helps to boost exporters and the country has begun accepting tourists again.

Over the year, the net asset value total return was -16.3 per cent – which was below the TOPIX total return of -3.9 per cent in sterling terms. For context, the company's objective is to obtain long-term capital growth, and the NAV total return of 22.8 per cent over the five-year period is ahead of the benchmark return of 20.0 per cent, again in sterling terms.

Biases towards small companies, higher growth companies and gearing have been unhelpful over the past year. The largest individual detractors to performance all operate in the internet area and share the common feature of investing heavily to try and seize future opportunities. On the other hand, the largest positive contributor to performance was INPEX, a liquified natural gas extraction company, which has since been sold.

Despite the current global challenges, the income of the Japan Trust has continued to grow strongly due to the efforts of the underlying companies. Therefore, the Board is recommending a final dividend for this year of 9 pence, representing an increase of 50 per cent on the dividend of six pence last year.

We continue to have large exposures to Internet and Automation related companies.

On the Internet side, Japan continues to have lots of opportunities and the trend towards digital transformation seems to have been strengthened by the pandemic. We have increased holdings in three of the four most significant contributors to underperformance, which are all internet businesses, because our conviction in future returns has increased over the year. Large holdings within this area include SoftBank, SBI, GMO Internet and CyberAgent. On the automation side, top holdings include FANUC and Misumi.



We are also seeing opportunity in usually high-quality businesses whose earnings have been temporarily negatively impacted by Covid. New holdings include Shisiedo, a leading skincare company.

On the other hand, for the first time in many years we do not hold a single car assembler in the trust. This is because we have become increasingly of the view that consumer demand is now at a tipping point where we will see a rapid shift towards battery electric vehicles given that they have emission, running cost and performance benefits while current challenges of range and initial price are improving. In general, the Japanese car companies are poorly positioned for this future because their strengths are in engine technology and mechanical engineering whereas in the future, battery technology and software are likely to be key.

Gearing has been actively increased as we have made a conscious decision to invest more in what we believe to be high quality growth companies at a time when their shares seem to us to be on sale. Net gearing at the end of the year was 17.5 per cent.

So, in summary, last year the Baillie Gifford Japan Trust net asset value total return was -16.3 per cent. We see opportunities in Internet, Automation and usually high-quality businesses that have been impacted by Covid and the Board decided to recommend increasing the dividend by 50 per cent compared to the previous year. The future is always uncertain, and volatility is inevitable, but we believe that investing in quality growth companies will continue to be an effective way to preserve and grow wealth over the long term.

Thank you.



Annual Past Performance to 30 September Each Year (%)

	2018	2019	2020	2021	2022
The Baillie Gifford Japan Trust	18.8	-3.3	6.6	16.3	-29.0
TOPIX TR	13.0	-0.3	2.4	15.6	-13.5

Source: Morningstar. Share price, total return Sterling

Past performance is not a guide to future returns.

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The trust's exposure to a single market and currency may increase risk.

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

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

Shareholders in the Trust have the right to vote at the Annual General Meeting on whether to continue the Trust or wind it up. If the shareholders decide to wind the Trust up, the assets will be sold and you will receive a cash sum in relation to your shareholding



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

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