Baillie Gifford™

Japan All Cap q2 investment update

July 2025

Investment manager Jared Anderson gives an update on the Japan All Cap strategy covering Q2 2025.

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

Jared Anderson: Welcome to the Q2 2025 investment update for the Japan All Cap strategy. I'm Jared Anderson, one of the co-managers on the strategy.

The Japanese economy is continuing to see positive momentum following a prolonged period of deflation. Prices, wages, and interest rates are trending up. And in turn, the corporate sector is having to think harder about how capital is deployed and the return on that capital. This is a supportive backdrop for the types of companies we invest in and compounded by the structural growth themes that they are leaning into.

Q2 performance was marginally behind the index but importantly ahead of Year-to-date (YTD). This reflects a market-level tilt away from more cyclical, export-led companies like autos into the types of companies that we favour. Companies with strong competitive positions, agile management teams, and growing, not shrinking, opportunity sets. AI and gaming were standout themes this quarter, evidenced by the likes of **SoftBank**, the technology-focused investment company and **Nintendo**, the gaming and entertainment company.

Taking these in turn, SoftBank is going all in on AI. Its investment in **Arm**, the UK-based chip design company, is the centrepiece of its strategy here. Arm offers power-lite blocks of IP that its customers can stitch together into bespoke solutions. This domain specificity is an important trend as we run up against the physics of Moore's law. Combined with its investment in **OpenAI**, a category-defining platform with around 800m weekly active users. And its commitments to build out the physical infrastructure layer, SoftBank has an unmatched collection of AI assets. And of course, it has a previous for making prescient calls on emerging technology, be it bringing the iPhone to Japan or investing early in Chinese ecommerce.

Nintendo's new console, the Switch 2, had a record-breaking launch in the quarter. Over 5m units have reportedly been sold in its first month on sale. This makes it the fastest-selling console of all time and almost double what the original Switch managed in its first month back in 2017. Reviews have been strong, and the slate of new titles from both first-party and third-party developers looks promising. And beyond gaming, Nintendo continues to push its IP across different mediums. The success of *The Super Mario Bros. Movie*, the highest-grossing video game adaptation in history, is indicative of its flywheel approach here, reinforcing the popularity and relevance of its IP and adding yet more fans to its inimitable franchise. Nintendo is arguably the most unique and compelling growth company in global entertainment.

Moving on to the detractors. **Rakuten**, the ecommerce company, was a notable underperformer in the quarter. It continues to make progress with its mobile network buildout, but we are seeing intense competition here as the incumbent carriers muster up a response. Rakuten continues to add new subscribers with its low-cost price plans, but with momentum seemingly slowing. This is something we are monitoring closely and engaging with the company on. More optimistically, we are starting to see pricing bottoming out at the industry level and remain of the belief that Rakuten has a strong hand here with its captive points ecosystem.

Turnover for the strategy remains low, with an implied holding period of around 10 years. We want to be long-term owners, not short-term speculators. That said, there were a number of new purchases in the most recent quarter. One area worth highlighting is the opportunities we are seeing in gaming beyond the likes of Nintendo and **Sony**. This is a pocket of Japan where creativity and craftsmanship happily meet. Japanese content is increasingly relevant outside of Japan. And more and more people, young and old, are engaging with such content. This is a big opportunity for Japanese companies with high-grade IP and a deep bench of talent. **Square Enix** and **Sega Sammy** are two recent purchases who fit this billing. Square Enix is behind the *Final Fantasy* and *Dragon Quest* franchises, that have a large and loyal following. Sega Sammy has *Sonic the Hedgehog* and *Angry Birds* amongst many others in its stable. Both these founder-owned companies have an increasingly global mindset. And a strong catalogue of under-monetised IP that should drive value creation over the long term. We are optimistic.

And this optimism cuts across sectors. Japan has industry-shaping companies not just in gaming, entertainment, and AI. But in healthcare, robotics, and manufacturing. These are the companies we are investing in; faster growing, more profitable, less indebted vs the market as a whole. Companies with an eye firmly on the future, not the past. Japan remains a market that offers stock pickers quality growth companies at attractive prices, and this is really what underscores our conviction. That now is a great time to be investing in Japan's best growth companies.

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Japan All Cap Strategy

Annual past performance to 30 June each year (%)

	2021	2022	2023	2024	2025
Japanese Equities All Cap Composite (gross)	33.2	-27.6	10.8	6.9	14.1
Japanese Equities All Cap Composite (net)	32.4	-28.0	10.1	6.2	13.4
TOPIX Index	23.8	-19.5	18.1	12.8	15.9

Annualised returns to 30 June 2025 (%)

	1 year	5 years	10 years
Japanese Equities All Cap Composite (gross)	14.1	5.4	6.6
Japanese Equities All Cap Composite (net)	13.4	4.8	5.9
TOPIX Index	15.9	9.0	6.5

Source: Revolution, Japan Exchange Group. US dollars. Returns have been calculated by reducing the gross return by the highest annual management fee for the composite. 1 year figures are not annualised.

Past performance is not a guide to future returns.

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