Baillie Gifford™

JAPANESE FUND: WHAT THE MARKET IS MISSING

December 2023

Matthew Brett, Investment Manager, and Thomas Patchett, Investment Specialist, discuss the Baillie Gifford Japanese Fund and reflect on this year's performance.

Thomas Patchett (TP): Good morning. My name is Thomas Patchett, I'm a specialist for Japanese equities at Baillie Gifford. Joining me this morning is Matthew Brett, the manager of the Japanese Fund, which is a 1.8 billion sterling fund that was launched almost 40 years ago. In terms of an agenda, I'm going to spend roughly 20 minutes asking Matt questions on performance and his expectations going forward, and then we're going to open up to questions. Welcome, Matt.

Matthew Brett (MB): Hi, Thomas.

TP: To kick things off, and something which I think will help frame the rest of the discussion, can you briefly outline what the purpose and approach of the fund is?

MB: Basically what we're trying to do is look for high-quality Japanese businesses that we think can grow their sales and earnings over the long term. What we're basically trying to do is to put those companies into the portfolio and then not to fiddle around too much with those companies. The approach has been characterised over the years by very long holding periods, so typically the turnover is about 10% a year. And we're striving over time to deliver a couple of percent more than the index over rolling five-year periods, but obviously over the years there's been significant volatility across the tide.

TP: Thanks, Matt. Obviously you've been doing this for some time now, covering Japanese equities for almost 20 years. What lessons or reflections can we learn from previous periods that might help us navigate what we're facing at the moment?

MB: I think the current period, as people will know, has been quite difficult in performance terms, certainly relative to the index. And we have had periods of difficult performance in the past, in the 2005/2006 time, we had some problems with individual stock picks at that time. And then the Lehman crisis was obviously quite a difficult period, particularly in absolute terms. Currently the experience we've been having has really been one of not having the types of stocks that have been the ones that have been the leading stocks in terms of performance over the past couple of years. And so, that's resulted in very weak relative performance, even absolute terms, the value of the fund is remarkably similar to what it was five years ago. It's really been an absence of those big winning stocks that's been difficult in the past couple of years.

TP: Let's dig into that then. Because, as you say, I think the strategy, the fund actually had quite a strong track record of outperformance up to about 2021. And then since then, things have been markedly weak. We lost a lot of ground during 2022 and we've gained a little bit back this year, year-to-date, in local currency terms, but obviously in sterling and on a relative basis things are still quite poor, we're still quite far behind. Can you explain what is driving that? What are the core causes of that?

MB: I think to get into some of the detail of what's been happening in the past couple of years, as you know, the period during COVID was a very strong period for the fund, similar to many Baillie Gifford strategies. Where a lot of our businesses are perhaps internet based and not that cyclical in nature, and they did very well during a time when the real economy was under a great deal of pressure. Then subsequently to COVID, we've had a period where the rapid reopening of things coupled with a weak yen and things like that, has resulted in quite a strong style shift in the Japanese market towards lower rated, more value type of stocks. And they've generally been the place to be in the past couple of years.

Now a lot of that is just the nature of changes in style, in the sense that it's been quite typical for us to lag performance wise in a strong cyclical upswing in the past, so that's not unusual. But of course in terms of generating the level of relative underperformance that has happened, there's been some additional factors on top of that. A couple of those additional factors have been during COVID we built up an exposure to some China consumer-related companies, so for example some of the skin care types of brands. And those haven't really recovered yet, there's been a bit of worry about the growth and the recovery in China, so those are things that we bought and haven't been at all helpful yet.

Also, we've had some individual companies which haven't performed as we might've hoped, most notably Rakuten decided a few years ago to roll out a mobile phone network in Japan. And that has been a bit more costly than expected and it's taken them time to get the customers in. The shares have been pretty weak on that and the company required some more of our equity, so that's been an unhelpful thing.

But looking forward in that case, the network is now built, the quality of the network seems to be as good as any of the other networks and just last week they announced that they've got 6 million customers now and they should be breakeven, they should get towards 10 million customers. I think the outlook for that one is quite good.

Then the final thing that's hindered has been the absence of big, winning stocks. Normally we'd hoped to have some things that go up several-fold, but we've not really managed to find them in the past couple of years. Maybe if we'd had some more in the hard technology type of space, that may have helped us a bit. But within the companies that we have, we have a lot of exposure to technology and development in AI, but we tend to be a bit more on the internet, the more capital light parts of the tech and the AI theme hasn't really gone into those as much as it's gone into those direct hardware players to date. But again, there's a lot of latent exposure to those kind of areas within the portfolio that would be very helpful and should being to do their thing as the trend continues over time.

TP: Great. There's quite a few things that you covered there, quite a few drivers of recent relative poor performance. The one I just wanted to quiz you a little bit more on was the style shift that we've experienced in Japan. Probably in a more pronounced manner than what you've seen in other markets, value massively overtaking growth in the last couple of years. And some of the factors behind that are the expectation that we now might move into a slightly higher interest rate environment, inflation seems to be picking up, wage inflation is starting to come through, which Japan hasn't seen for 20, 30 years or so. Are you at all worried that we're going into a new paradigm here, that Japan is going to be more favourable to the value investor for the next ten years or so, than a growth investor? Can you just elaborate on your thoughts with regards to that?

MB: I think there's a few different things going on here, and some of them overlap and some of them are quite different. One of the things that's been happening in Japan for several years now has been that trend towards improved governance in Japan. This has been going on since the mid-2000s in Japan with the introduction of the Governance Code and the Stewardship Code, more focused on return on capital. This has general been the thing in Japan, but I think recently, in the past couple of years investors seem to have got more excited about that theme. And some of the most cyclical companies have been the ones where people have seen the greatest governance improvements.

Now it's an open question for us, as to whether those companies really have changed, whether they are really improved companies, or whether actually they're cyclicals that benefit from a weak yen and strong economic conditions and then people are regarding these as corporate governance improvement stories. We've had a look at some of these and haven't generally got too excited about them, but that governance trend has been an ongoing trend.

And then there's this other question about are we in an inflationary environment now? Does that change things for stock picking? And undoubtedly we've had a bout of global inflation and we've seen elements of that in Japan, but Japan still seems quite a long way from having an inflation problem. Certainly, we are seeing the government stepping away, the Bank of Japan stepping away from that very, very stimulatory approach of yield curve control, starting to edge away from that. But we're certainly not anywhere near a high inflation or high interest rate environment in Japan.

And there are parallels here to the mid-2000s when people started to get quite excited about banks on the basis of rising interest rates would improve their profitability. Then we rolled into the Lehmans crisis and it turned out that the idea was certainly too early, if not wrong. What we've been doing in terms of the portfolio has been that we've looked at these inflationary type of things and the impact on interest rates and, basically, we're not that convinced that the high inflation is going to stick and you can see that in our portfolio actions.

We’ve sold out of things like Inpex, the oil and gas company, around the time of the Russian invasion. We've subsequently sold out of two of the trading companies that we held that had been strong performers, to fund better ideas in the portfolio. Recently we've been chipping away at one of the financial holdings, as well, because we think it's quite well upward event. I think time will tell, but I think these are also big deflationary effects, as well, coming from ongoing technology change, coming from AI. Coming also from the difficulties in the Chinese economy at the moment, which mean that a number of things that they make are heading for the export markets, rather than being absorbed domestically.

I think time will tell whether we are really in a different investment environment, but my gut feel is that actually, what we have seen is a bout of inflation, rather than we’re in a completely different type of environment. I think particularly in the case of Japan, we really are not seeing the high inflation that we've seen elsewhere, even to date. I think certainly some interest rate rises already baked into people’s estimates when they look at financials.

TP: A few other things that you mentioned, a couple of other pockets of weakness, China and the internet businesses, which maybe we can get onto in the Q&A. But overall, it's a stylistic headwind that the fund has faced. Can you talk a little bit about the fundamentals of the portfolio in aggregates, how things currently stand relative to the market?

MB: One of the things that's been a feature of Japan over the years, has been that we've tended not to pay a particularly high premium for growth in Japan. And in recent times, with the performance being difficult, that premium is at a very small level at the current time. I think, Thomas, you have a slide there, I don't know whether you want to show it, of the portfolio split up into its four growth buckets. But it also shows the aggregate valuation on the portfolio. I think that that’s quite an important point.

TP: This slide or the next one?

MB: The next, I think, please. This just shows the EV to EBIT of the portfolio as a whole, which currently sits, that blue line, at 17 versus 15 for the market. But there's a couple of anomalies in here, the biggest of which is SoftBank, which is more of an investment holding company now. If we exclude that, then we end up on a very, very similar multiple to the market. You can also see that the cyclical growth companies are on a much lower EV to EBIT than the wider portfolio. But those have been the ones we’re tending to sell because when we make any kind of cyclical adjustment, we basically do wonder how sticky those profits are going to be.

And again, you can see on the growth this is per annum historic growth, there's been a lot more growth coming from the secular growth area than the other parts of the portfolio. But the next best part is the cyclical growth. Again, we think that this has been growth that isn't necessarily as sustainable as some of the others. On the other hand, the so-called growth stalwarts have grown very little, but these are often businesses that were quite negatively impacted by COVID, so the historic growth rate is quite slow. And again, there's a curiosity with SoftBank dragging down the numbers for special situations.

If we go to the previous slide that you just showed, Thomas, then this shows the actions in terms of what we've been doing.

TP: Matt, I think it might be quite useful just for context, just to provide a very brief description of these four buckets for our clients.

MB: Absolutely. The secular growth companies are the real high-growth types of companies with a stronger sales growth. Often these are the internet businesses or the factory automation type of businesses. Then we have some growth stalwarts, which are more your Warren Buffett style, grinding it out type of growth companies. The top line isn't as vast, but they're competitive edge is typically quite high and you should be able to grind out returns over time. Then we have some special situations, where we like the underlying components, but there's some big anomaly with the balance sheet, either across holdings, cash, or it's a holding company.

Finally we have the cyclical growth, where peak-to-peak or trough-to-trough we would expect to get faster than market earnings growth. However, there's often a cyclical element and we're quite mindful of where we are in the various cycles. Those are the growth buckets that we use, and we've used these for many years, and we're basically driven in our allocation by where do we think the most upside is at any particular time.

What that's drawn us to in the past couple of years especially, has been towards the secular growth area, adding more to these high-growth companies while there's been more depressed prices. Also, buying into, I mentioned earlier, some of those skin care companies, such as Shiseido and Polar, which are very exposed to Chinese demand. The way we've been funding this has been by reductions in sales, typically from those cyclical growth area.

As you can see, we've sold Mitsui and Tsusho recently, the two trading companies. We've also been reducing Mitsubishi Corporation. The astuteness nerds will know that Warren Buffett, for example, bought into trading companies not so long ago, but he did buy in at prices that were around half the price at which we're selling, so there is a bit of a difference in the price, given how strongly those companies have performed. Essentially, the portfolio has been shifting towards being a slightly more pure growth than it has been in recent years, reflecting the opportunities.

TP: Obviously you've been adding more to the internet space, the higher growth businesses. In aggregate the portfolio is still in a very strong position, what do we need for that to manifest in better share price performance then? That's the million-dollar question and very difficult to answer. We present to clients and we're obviously very confident in the companies. You and I recently went to Japan and met with many of these businesses and they confirmed that conviction, so what do we need for that to actually start coming through into share price performance?

MB: I think there's probably two things that would provide a helpful tailwind to the portfolio. One would be people becoming less worried about inflation, perhaps global interest rates being perceived as having peaked out, perhaps coming down. Perception of what might happen in Japan, not being as dramatic as perhaps people have thought in the last year or so.

Then the other thing I think that will generally help the portfolio would be slightly tougher economic conditions. Now this may not, to be clear, help the portfolio in an absolute sense, but it would certainly help it in a relative sense. Because I think a number of the stocks that have done very well at the market level have been pretty cyclical things in Japan. Weak yen beneficiary starting with lower margins that have really benefited from a strong cyclical upturn. I think those things are the type of things that to us look quite vulnerable if economic conditions become a little bit tougher.

Then of course the third thing, would be simply finding some companies that go up a lot. As I mentioned earlier, that’s something that I think we have been disappointed in the past couple of years, not to find stocks which have managed to go up two, three or more times, as we have managed to do previously. Ultimately, there are a number of companies in the portfolio that I'm extremely excited about at the moment in terms of their potential, but those companies would need to come through, obviously, in order to generate the returns again.

TP: Great, thanks. I'm just going to ask a few more questions and then I'll open it up to Q&A, so please use the button at the bottom of your screen to ask questions, if you have any. You talked a little bit about some of the changes you made in the portfolio. You just mentioned there that some stocks that you're particularly excited about. Can you provide clients with a bit of a summary of the real areas of enthusiasm that you have for the portfolio and how the portfolio may have shifted in favour of some of these themes?

MB: Essentially, and there's a slide about this that might be worth flicking up, the portfolio has within it three big themes. The first of them is the internet area where we have about a quarter of the portfolio in internet-related businesses. This is an area that we remain super excited about.

SoftBank recently had the successful Arm listing, the entire of SoftBank is currently worth a little different from its stake in Arm alone. Rakuten, where as I mentioned, we had this issue with rolling out a mobile phone network, but it's a hugely strong domestic internet player spanning e-commerce, financial services and now mobile, which should be very strong and capable of dramatically improving margins in the future.

SBI, which is an online brokerage benefitting from a shift over time from savings towards more risk type of products. And CyberAgent, which encompasses advertising, a service called ABEMA TV, which is like a cross between TikTok and YouTube, if you like, that type of service, and also does gaming. There's a lot of exciting things in the internet space, both globally and just as digital transformation continues in Japan and various things, from real estate to lawyers all move online.

I think the big excitement for us in Japan is still we’re not paying high multiples for these businesses. SoftBank is not far off half of net asset value. Rakuten is around the level of sales, if not below. CyberAgent’s on a single-digit EV to EBIT multiple, etc. Sometimes when I say we've got a lot in internet, people do get a bit worried, but these are certainly not highly priced internet things. That overall is about a quarter of the portfolio and then about another 15% is in these automation related players. Here Japan is a real global leader, FANUC in robots or Keyence in factor consulting, SMC does pneumatic valves and Kubota, the big excitement is tractors, small tractors in Asia, particularly for rice farming.

This trend towards generally automating things we think continues and also could accelerate as machine vision and AI makes robots much more aware of their surroundings. Those type of opportunities are very exciting to us.

Then the third area is one that's changed quite a bit in the past few years. If we go back about five years, our biggest third area was a position in resource related companies, spanning Inpex and also those general trading companies. Whereas we've largely changed that in favour of what we can group together as forever franchises. Very durable businesses, some of which have had difficulties in recent times as a result of COVID. For example Shiseido in skin care or Bridgestone and tyres, and also they make aircraft tyres. Something like Bridgestone, the profits disappeared during COVID, but they've come back now. Something like Shiseido we're still waiting. And things like Nintendo, the brands are just hugely strong over time.

Of course, how do we make the portfolio add up? Well, the way we make it add up is we've got very little in the megabank type of area. We've got very little now and we've been reducing it further in the car-related area. We don't have any car assemblers at all anymore, basically we feel they are being squeezed by Tesla on one side and the Chinese battery electric vehicle makers on the other. And then on top of that, they seem poorly placed for autonomous driving, so we've really lost hope in terms of the car industry in Japan at the current time.

Finally, we have very little in these big conglomerates, your Hitachis and things like that, where there has been improvement in earnings in recent years, but we think the underlying businesses aren't structurally high-growth businesses, and so we struggle to get excited. Those are the main things we invest in, versus the main things that we don't invest in at the current time.

TP: Great, thanks. I'd like to ask you because we've already got a few questions on it and it seems to be popping up quite a bit at the moment, is the impact of AI. What implications it has, specifically within Japan with Japanese companies and how you're thinking about it, as well, from a portfolio construction point of view?

MB: I think AI is obviously a very exciting change. I think in some ways it's just a continuation of uses of computer, which has been going on for years, from desktop to internet to smart phones, and now even pushing into AI. It feels to me at the moment that AI is a bit like the early days of the iPhone, where everyone could see it was quite clever, but no one knew quite what to do with it. Then it took those apps to be developed and now Uber, Google Maps, all of those things people use every day, and they really make the system helpful and, in many ways, irreplaceable in the world.

I think with AI, what we've seen so far is quite a narrow group of companies have been the beneficiaries of the excitement with AI, mainly hard tech type of companies. And we just see that broadening out into the different layers of AI. There's the hard technology chips, and so on, layer but there's also very interesting opportunities for a lot of the internet related businesses, particular those with big customer datasets, so your Rakutens and your CyberAgents can have these type of datasets that they should be able to mine for insight over time.

Talking to various Japanese companies, it's really these digital native type of companies that have the best idea as to what to do with AI and probably the best capabilities to actually do it. Those companies are basically saying this should lead to dramatic cost reductions in what we're able to do in terms of software engineering. I think that's just a huge, really exciting opportunity that's going to be a big part of our investment universe for quite a long time. I think it is also going to be quite difficult, I think, for some of the older fashion companies to cope with, so I think we've got to be both looking for the opportunities here and also looking for those companies that may find it difficult to adapt to that kind of environment and trying to avoid those ones.

TP: Great, thanks. I'm going to open up to questions now because we only have 15 minutes left, so please do send your questions, if you haven't already done so. I've got a few questions on pricing power, how strong has pricing power been within the portfolio during this inflationary bout and have you seen margin pressure as a result of this high input costs?

MB: This all gets quite stock by stock, but for example we saw Calbee, the potato snack company in Japan, three weeks ago now. We were talking to the CFO there about the pricing and said they put through another price rise this summer. We were just asking since COVID, what's the cumulative price rise that you've had? And it's about 15% across the portfolio, so this is potato snack type of foods, so that's been quite significant. Bridgestone has put through multiple price increases, both domestically and overseas.

You can take a step back, a lot of people say Japanese companies are unwilling to put up prices, and I don't think that's quite right. Japanese companies are unwilling to just put prices up for the same product, the classic toothpaste manufacturer where you put prices up 6% a year and you say it's new, improved, extra whitening or whatever. Japanese companies have been a bit reluctant to do that. However, when they have their own costs increasing, they then just say to the customers our costs have increased, therefore we're going to pass it on.

That passthrough has been fairly good and we've seen that across multiple companies in the portfolio, but at the same time, I think it's something where maybe we're starting to get to the stage now where that process is largely done. The oil price isn't going up anymore, the input costs aren't increasing, so I think we may see a slowdown in the rate of increases going forward. But equally, what we may find with some of these companies is if their input costs fall there'll be a bit of stickiness on the other side and it could actually continue to be quite good for profits going forward. But so far, the price increases have been sticking.

TP: We've got quite a few questions, so I'll ask you to try and keep your answers as short as you can. One question on the valuation, you mentioned very attractive when you compare some of these internet businesses to their Western peers. Yet rerating seems elusive, why do you think that is, what are the catalysts for that changing?

MB: I think that's right. To be honest, those who have attended these webinars in the past will know I was super excited about the valuations 12 months ago, as well. I've certainly been early and I may even have been wrong there, but I think the real excitement here is the fact that these multiples are based on earnings that should be pretty stable. A lot of the Japanese market is quite cyclical and we've had a weak yen, we've had strong global demand, and those are the perfect conditions for relatively marginal companies to show some good earnings in the short term.

I think what will make the rerating happen, normally what has made a rerating happen is slightly tougher conditions and then people look around the market and they say do I want that car company on a low multiple of earnings, but where the earnings are going backwards? I don't know how far they go backwards. Or do I want that more stable internet business, where I can trust the earnings number going forward? I think that historically has been one of the times when we've had rerating of companies.

Others, you don't know when these things happen, but I guess it just provides us with quite a lot of comfort that in a lot of these internet type of businesses, I feel the shares could double and we wouldn't be starting to worry about the valuations yet. That's an unusual position to be in, but who knows exactly what it takes to change perception. But certainly, we've now been on the back foot in terms of relative performance now for two, two-and-a-half years, so we're certainly not in the start of this process. I don't know how long it goes on for, but these things don't tend to go on forever.

TP: Thanks, Matt. Question on the TSC initiatives, which have been targeted at companies that trade with a price-to-book below one, it's about 50% of the market. Is this an area you've been looking for opportunities in?

MB: I think that initiative is part of this long-standing trend to improve governance in Japan and to improve profitability of the overall market. We have had some beneficiaries of that within the portfolio, for example Kyoto Financial Group, formerly Bank of Kyoto, is one way there's been an improvement. But we've tended to look at these situations probably more from [unclear] of thinking it's relatively easy to get a company to move from being not paying any attention at all to their return on capital, to trying to improve that a bit and getting things up towards a price-to-book at one.

The question is what happens going forward? I think we haven't really generally developed more enthusiasm about those businesses, we just think basically they've gone from being very lowly rated to appropriately rate and, therefore, the process is a type of one-off process. In fact, it was interesting, I was talking to one of the shareholding services a few weeks back and they were saying there's increasing concern within the government of Japan that this focus exclusively on low ROE and moving it upwards is actually starting to have a negative impact on growth companies and their ability to secure investors because everyone's so busy looking for these bad, becoming better type of opportunities.

Clearly, from a longer term perspective, you don't want to starve your companies of the future or of capital. I have to say, that was the thinking that felt good to me, given that we've been suffering from that effect, relatively, but time will tell. But basically, I think it's easier to make a bad company average, than it is to then go from there to turning those into really good businesses.

TP: And a specific question on one of our stocks, Nintendo. It's had a fairly positive stream of events recently with successful brands, movies and excitement over the next Switch console, whatever that may look like. Can you just talk a little bit about your outlook for that company, please?

MB: I think all of that is correct. Nintendo's been on a good run and the biggest surprise, in some ways, with Nintendo has been the longevity of the Switch console. The biggest question is the one that we can't answer, which is what comes next? Undoubtedly, it's already there in a

Nintendo lab somewhere, but they're certainly not showing it to anyone. I've always joked that Nintendo IR, they do an excellent job, but you've got to be clear that their job is to tell you nothing about the question you really want to know, which is what does the next console look like? And they're excellent at doing that.

But I think with Nintendo, the long-term opportunity for us is that continuing realisation that the company's having about the value of the brand. It's taking those brands to new media, like film, again and then of course that creates a virtuous circle where these characters, particular Mario, is a core bit of people's childhood now and they return to that again and again. Nintendo still is not well distributed outside of developed markets, so there remains a big emerging markets opportunity for Nintendo.

I think the really interesting question is going to be whether at some point they've become console light, if that makes sense, and become more doing things on a virtual type of basis, rather than coming with a console. I think that will be really interesting, to see what they do with their next console. Does the next console just have a controller that connects to a TV or is it a full type of console? Again, historically Nintendo have focused on that, enjoying that toy nature of gaming, so maybe they will stick with the physical type of hardware.

But I think the challenge with Nintendo clearly is valuing it, given that it has these big cycles. We very much like Nintendo, but we are conscious that it's been a long and successful cycle, as well.

TP: A question here, obviously you're the lead manager for the Japan Trust, as well. If you can highlight what the significant differences are between this one and the Investment Trust, and how the gearing for that trust has changed, as well, please?

MB: With the Japan Trust, I manage that, and Praveen is the deputy manager of the Japan Trust, he also manages Shin Nippon, the specialist smaller companies trust. Now the overlap between the Japan Trust and the Japanese Fund is about two thirds and the main difference is the Japan Trust goes further down the market cap spectrum, so it has some of these smaller mid-caps, etc. The Japanese Fund typically doesn't go below 100 billion yen when we're buying new ideas, roughly $1 billion, give or take, depending on the currency. Whereas the Japan Trust will go quite a bit smaller.

The other things to know about the Japan Trust are it doesn't invest in any unlisted companies, which is quite unusual for Baillie Gifford trusts. Shin Nippon does invest in some unlisted companies, but only a handful. In terms of the gearing on the trust, both Japan Trust and Shin Nippon at the current time are just over 18% net gearing, so we're pretty fully invested here. We are enthusiastic about our individual companies and so we have deployed the gearing to the maximum extent at the current time. Of course there's also the discount in premium on the shares. Currently the Japan Trust is around 10% and Shin Nippon is a couple of percentage points wider than that at the current time.

TP: Excellent, thank you. In a second I'd like you to just conclude with a few statements, but just before I do, thank you very much for all the questions that have come in. Unfortunately we haven't had time to answer all of them, but we will come back to you on those that we haven't answered. Matt, obviously it's been a really difficult time, our clients have been very patient with us. Can you conclude with a couple of statements as to why clients should continue to stick with us, given the opportunities ahead?

MB: We absolutely understand it's been a very difficult time for performance for the clients over the past two years or so. But at the same time, we have a very intact and very experienced team. We're not changing our process of looking for the better quality, higher growth companies, and trying to keep the money in those types of businesses, letting them do the returns over time. If anything, over the past couple of years, particularly this year, we've been pushing harder into those higher growth types of names again, trying to make sure that we're well positioned when sentiment changes again. And given the fact that we still see these really big opportunities across digital transformation and internet in Japan, also those robot type of names, and we've got plenty of really durable, quality growth type of companies, as well. I think from our perspective, we're super excited about the future, but obviously mindful that it has been difficult.

TP: Excellent. Thank you very much for joining us today. If you have any questions, please get in contact and we'd be happy to set up another call with you individually or answer any questions you may have. Thank you.

MB: Thanks very much.

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

	2019	2020	2021	2022	2023
Baillie Gifford Japanese Fund - Class B-Acc	1.4	7.9	12.4	-19.3	0.6
TOPIX	-0.3	2.4	15.6	-13.5	15.1
TOPIX +1.5% (Target)	1.2	3.9	17.4	-12.2	16.9
IA Japan (Sector Average)	-1.1	5.6	16.7	-15.4	11.3

Source: Baillie Gifford & Co Limited and Revolution, FE, Japan Exchange Group, total return in sterling.

The manager believes that the TOPIX +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.

Past performance is not a guide to future returns.

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Further details of the risks associated with investing in the Fund can be found in the Key Investor Information Document or the Prospectus, copies of which are available at **bailliegifford.com**.

Chile
In Chile (i) La presente oferta se acoge a la Norma de Carácter General N° 336 de la Comisión para el Mercado Financiero (CMF) de Chile.
(ii) La presente oferta versa sobre valores no inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la Comisión para el Mercado Financiero, por lo que los valores sobre los cuales ésta versa, no están sujetos a su fiscalización;
(iii) Que por tratarse de valores no inscritos, no existe la obligación por parte del emisor de entregar en Chile información pública respecto de estos valores; y
(iv) Estos valores no podrán ser objeto de oferta pública mientras no sean inscritos en el Registro de Valores correspondiente.
(v) Este material no constituye una evaluación o recomendación para invertir en instrumentos financieros o proyectos de inversión.

Mexico
In Mexico The Fund has not and will not be registered in the National Registry of Securities maintained by the National Banking and Securities Commission, and therefore may not be offered or sold publically in Mexico. The Fund may be offered or sold to qualified and institutional investors in Mexico, pursuant to the private placement exemption set forth under Article 8 of the Securities Market Law as part of a private offer.

Columbia
The securities have not been, and will not be, registered with the Colombian National Registry of Securities and Issuers (Registro Nacional de Valores y Emisores) or traded on the Colombian Stock Exchange (Bolsa de Valores de Colombia). Unless so registered, the securities may not be

publicly offered in Colombia or traded on the Colombian Stock Exchange. The investor acknowledges that certain Colombian laws and regulations (including but not limited to foreign exchange and tax regulations) may apply in connection with the investment in the securities and represents that it is the sole liable party for full compliance therewith.

Peru

The Fund has not and will not be registered in the Public Registry of the Capital Market (Registro Público del Mercado de Valores) regulated by the Superintendency of the Capital Market (Superintendencia del Mercado de Valores – "SMV"). Therefore, neither this document, nor any other document related to the program has been submitted to or reviewed by the SMV. The Fund will be placed through a private offer aimed exclusively at institutional investors. Persons and/or entities that do not qualify as institutional investors should refrain from participating in the private offering of the Fund.

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