

As with any investment, capital is at risk. Past performance is not a guide to future returns.

Hello and welcome to this webinar on the Baillie Gifford Japan Trust. My name is Amy Maxwell, I'm from Citywire and I'll be hosting today's session joined by Matthew Brett. This year marks Matthew's 20th anniversary managing Japanese equities at Baillie Gifford. It's a good moment then, to take stock of how Japan itself has changed over those two decades and how the trust is positioned for what feels like a real turning point. For years, Japan was seen as an economy stuck in deflation, but with inflation back, corporate reforms accelerating and equity markets hitting multidecade highs, the mood has shifted.

Yet, sentiment towards the trust tells a different story. Despite new market highs, Baillie Gifford Japan still trades at a discount to net asset value. A contrast to US, where markets are at record highs, even though earnings are lagging. That makes it the perfect moment to ask Matthew how he sees this divergence. What's behind Japan's reforms and where the opportunities lie. There's plenty to explore from world-leading gaming and anime exports, to the quiet but radical transformation of its financial system. From AI to healthcare, the story is one of structural reinvention. To recap on the structure of the session, welcome Matthew, thanks for joining me today.

Congratulations on 20 years of managing Japanese equities at Baillie Gifford. Let's begin by looking back at your time. Let's go back to 2005. What was it like then and how different does the landscape look today?

Some things feel pretty similar, don't they? Some things definitely were different then. We're not talking about a huge amount of time ago, but I really remember 20 years ago, when I visited Japan, having to print off pages and pages of notes in advance and put them in ring binders and bring them with me because literally, once you got on the plane to Japan, that was your cutoff from many of the sources of information that we use. Nowadays, laptop and the iPhone and just make sure you've got the right adapter and everything is fine. All that information is much more readily available. Of course, back then, some of the internet companies that are significant today were really still quite small businesses. They've grown a lot over the time.

There's been that change in where the opportunities are in Japan over the years. I think people talk a lot today, about corporate reform in Japan. I think the tentative shoots of that were already present back in 2005. Then we obviously had the global financial crisis, which set things back a bit, but in many ways the journey towards Japanese companies being more interested in their

shareholders probably did start around that time. Companies were already putting their dividends up a bit and starting to think more about shareholder value and that process has accelerated over the years since. It's become much more of a driving force of individual companies in the market in recent years.

Let's talk about how the market is perceived today because five years ago, the trust traded at about a 10% premium to net asset value. Today it sits around a 10% discount. The gap reflects more than just technicalities, doesn't it? It's more about investor confidence. In your stock picking in Japan, why did you think the discount has persisted?

Over the years the discount on the Japan trust has been anywhere from a teens discount to quite a significant premium. I think that really reflects, as you say, these different factors. Generally speaking, I would say that we've had wider discounts when there's been a run of poor returns. Either as a result of the stock market and people being less interested or less good returns from us as stock pickers. I think if we go back over the past few years, the Japanese market has continued to do well. Over the past few years, coming out of COVID, our performance wasn't as strong as that of the wider Japanese market. We have a lot less in some of the more cyclical companies in Japan. Things like carmakers and banks.

As a result, our underlying portfolio grew in value a bit slower than the market over the past few years. Last 12 months that's changed again and the performance has been stronger and we've seen the discount close in a bit from a mid-teens level to about 10%. Across that time the board generally has been prepared to issue shares when the trust has been at a premium and to buyback shares when the trust has been at a discount. Both of those actions add value for individual shareholders over time.

The situation is almost the reverse of what's happening in the US market, where you've got prices running ahead of earnings.

I think it's fair to say that sentiment inside the US and outside of the US is very different at the moment. To give a single fact on this, the market cap of Nvidia, which today is the world's most valuable company listed in the US, that market cap is slightly higher than the entire Japanese stock market. If one held 100% of Nvidia, you could sell it and buy not just Toyota motor and a couple of other things, but you could buy the entire Japanese stock market for the same value. I think that gives you a flavour for just how different expectations have become in Japan. As you say, it's not that earnings have been disappointing in Japan, they've actually been quite strong.

It's just that hasn't been as fully reflected in stock prices. I think therefore, for me personally there's opportunity there within Japan because you have things going well. You have individual companies growing, but at the same time, what you don't have is very high expectations. Clearly, from an investment perspective, it's probably better to start with expectations not at a very high level. I think that's where Japan is an opportunity.

Let's dig into some of those opportunities now because you spoke a little earlier about you hold a lot less in cyclical such as carmakers and banks. Also, your active share is around 84%. That means that the trust looks very different from the index. Can you explain to me why is that and why is such a high-conviction approach so important when investing in an economy or in a market like Japan?

I think that's right. When it comes to what we're trying to do, we're growth investors in Japan. What we're trying to do is find companies that can grow their sales and earnings faster than the market over time. Those companies, we believe, will generally outperform the index over the longer-term. What we have in Japan, of course, is we have a very wealthy country. We have a country with lots of quite developed companies. Not all of those companies are going to be growth companies anymore. Some of the steel companies or some of the carmakers or the big banks, they're not really growing that fast anymore.

If we want to have a portfolio of higher growth businesses, we've got to look away from the index and we've got to look fundamentally at what is growing fast. Now, we're prepared to invest in big companies where they're growing fast. Things like Softbank group, for example. Overall, the portfolio has a bias towards medium and smaller companies because within an economy which is fairly mature, it's by buying those companies that are slightly smaller, that have the growth still ahead of them as they take market share from the big incumbents, that are the ones that we think are more exciting and yes, that's what results in having quite a different portfolio to the Japanese index and hopefully, a better portfolio.

You've spoken there, about rethinking the way you invest in Japan. Not looking like the index. There are a number of other things that investors could rethink about Japan. Especially, in terms of how its citizens invest. There's this \$2 trillion wakeup call. I think in some papers that you've recently put out, you've described them as idle assets. If you could breakdown what are idle assets and how have they come about? [marker 10:00] How have they come about and where is the investment opportunity for them?

I think this is still one of the big opportunities in Japan. Everyone knows that Japanese companies have vast amounts of cash on the balance sheet. Japanese individuals also have vast amounts of cash. How this has come about, I think is partly as a result of the tough times that followed the bubble in the late 1980s and the deflation that occurred after that meant actually, holding your assets in cash was a perfectly sensible thing to do. I think what we've seen more recently is that that environment has changed. We've seen inflation coming back in Japan and simply putting your money on deposit at your favourite megabank and earning virtually nothing in interest just doesn't seem a smart idea anymore.

I think what we're seeing therefore, is the pressure building for individuals and for companies to do something with that cash and to make it work harder. In some cases, they're putting it into the stock market or into real estate or into other assets that promise a much better return.

Parking that cash simply in a non-interest-bearing investment is actually going to be eroded away by inflation. This is whole new dimension for an economy and a country that has only seen deflation for the last 30 to 40 years.

I think that's right. I was talking with the president of Sumitomo Mitsui Trust Group, which is a trust bank in Japan and they do asset management as well as banking. He was saying there's a whole generation of people in Japan who have never really seen inflation and this is a new way of thinking. I think you're right. It takes time for people to get used to that, but at the same time, simply having the value of your savings being eroded away through inflation is not most people's idea of a lot of fun. Over time, I think we are seeing that shift happening and that pool of underused assets is trying to earn a better return and some of that return undoubtedly is going into the stock market in Japan and I think that that is a big opportunity.

SBI Holdings is one of your top holdings. Are they benefitting from this shift?

In the past we would have described SBI as being Japan's largest online broker. Over the years, it's grown and grown. It overtook Daiwa. It's overtaken Nomura now, to be Japan's largest brokerage. Certainly, that's one place that people are turning to as they open what the Japanese call NISAs or Nippon ISAs, which are tax free investment accounts, similar to our own ISA in the UK. Those have been very, very popular as people are trying to get better returns on their money. Yes, we expect SBI to be a big beneficiary of this shift over the years.

Let's move on to some other things that investors should be rethinking about Japan. Let's move beyond the obvious. Let's talk about some innovation. Japan is known for being innovative, but

there's a whole new wave, especially with AI. Softbank is your top holding and it obviously is very close to that AI story. How is it filtering through to the rest of your holdings also?

Softbank is very central to the AI story. It's got a big investment in ARM, which provides the design for almost all smartphones. It's recently invested in OpenAI, which is the company behind the popular ChatGPT models. Softbank really has been doing a great deal in AI. Yes, there are many opportunities within that area. Some of the other names within the portfolio that have exposure to AI include things like CyberAgent, which has been using AI to improve its adverts for its advert platform or Rakitan, which does ecommerce and it's been using AI to combine information from the different things that it does to give a much better and smoother customer experience.

Finally, we have a company called Bengoshi in the portfolio, which has been training a large language model on a database of legal precedent so that basically, you can ask this specialised GPT type model questions about the law and it can answer with an accurate basis on legal precedent. There's a lot happening through the portfolio in the AI world and I think as a whole, we do believe that AI is going to be one of the really significant themes over the next five to ten years. It's probably more exciting in many ways than the original internet because of the speed at which its penetrating and the way it can touch, quite quickly, on lots of aspects of business and life.

Of course, Japan is also home to some huge characters. We've got Nintendo, we've got Sonic the Hedgehog from Sega. Gaming is a huge industry, but gaming and anime are both huge exports for Japan culturally. They've also got great margins. Tell us about the business model and how central these creative industries are to Japan's growth story.

I think that's right. When people think about Japan, they tend to think of manufactured goods. Cars, Walkman, things like that. The gaming industry has been a huge success in Japan. Nintendo has managed to build up these very, very strong characters that have real global reach. What is really exciting is that many of those characters are still being sold not just in Japan, Western Europe, and America, but they're going global, which increases the opportunity set. Of course, AI really helps computer game manufacturers to develop the games faster, cheaper, better than they could before. What's really hard is to develop the intellectual property.

This is an area that we're been generally adding to over the past 12 months. We hold Nintendo, but we've also now got companies such as Square Enix, which as you mentioned, does the Final Fantasy series, which has been going for 20-odd years. Also, Sega Sanei which as you mentioned, covers characters like Sonic the Hedgehog. Surprisingly, it's a long time since Sonic was created, but hit films being produced fairly recently off that intellectual property. That move as well, from just pure

gaming into doing things like theme parks and films, just allows that intellectual property that's been built up over time to be used for lots of different areas. Gaming is one of the things that Japan does really well. It's likely to be a growth area in the future so, we're very excited about it.

How it is such a high margin business model? What is it about the business model that allows it to operate at such a high margin?

At a very, very simple level, it costs a fortune nowadays to produce a really high-grade computer game. Once you've produced it, the cost of selling one more copy is almost zero. You have these very, very high margins on your final few sales and that is hugely beneficial to the gaming companies. The success ones, yes, they spend a lot developing a game, but of course, then they have massive sales of that game and the latter sales are incredibly profitable. I think it's all based really off that long-term intellectual property that allows them to do that. There're similarities here, to blockbuster films where if you can reuse some of those characters, if you can reuse some of that intellectual property in different ways, you can then get very, very good margins on the back of it.

Let's move on to some other areas of innovation within the Japanese economy. Healthcare. A lot has been spoken about of Japan's an aging economy. Actually, some benefits to that is that they are tackling or they're being forced to confront some of those debilitating illnesses or illnesses associated with aging societies sooner and coming up with some solutions around those. Alzheimer's being one of them. Do you want to talk us through, you recently put out a white paper with some of the [marker 20:00] healthcare innovations within it. I encourage our audience to go and take a closer look at that. Can you talk to us a little bit about Eisai, which is an Alzheimer's drug that you are invested with?

That's right. One of the real challenges obviously, of improved healthcare, is that as people live longer, they start to develop different types of illness and different types of disease. Alzheimer's is a condition that becomes more and more prevalent as people get older. Japan, for example, has a big problem with Alzheimer's among some of the extremely elderly people. That problem is coming to us all in the longer-term. What Eisai has is a drug called Leqembi and what the drug does is it basically helps to remove plaques on the brain, which are probably one of the causal factors of the Alzheimer's. That is hugely exciting because for the first time, we actually have not something that tries to manage the symptoms of Alzheimer's but something that actually is trying to address the root cause of the problem.

I think for me, what is really exciting about this is it all feels a bit like how HIV and Aids felt a long time ago, where if we go back to the 1990s or whatever, HIV was considered pretty much a death

sentence that people would develop Aids, become extremely unwell and die. Nowadays, it's a manageable condition because people can be kept in a state where they don't develop full-blown Aids. In the same way, it may be that on a ten, 20 year view, we're looking at something similar for Alzheimer's that what's being considered an untreatable inevitable condition of extreme old age, may be something that if you can keep on top of cleaning out these plaques that develop in the brain, it may be that you don't just delay the onset by a couple of years, it may be that through this treatment combined with others, you can actually just keep pushing back the start of proper Alzheimer's so that it never actually properly gets going. I think that's a very exciting opportunity.

Staying on the theme of demographics and an aging society, of course you have less workers, which means that this whole surge in robots of cobots to fill a labour gap or a shortage in labour could actually be a good thing and it's solving a labour shortage issue. Do you want to tell us about robotic cobots and where they fit into the trust and the portfolio?

As a whole, if we look back at science fiction of the past and films and so on, we've got a lot of what science fiction showed us. We've got things that fly in the sky. We've got the communicators. We've got loads of those things. What we don't have, generally, are robots walking among us. That I think, is a piece that's starting to change. Autonomous cars in many ways, are effectively a funny-shaped robot. All of these things are possible because a robot with more awareness of its surroundings can operate in the real-world in a way that your traditional manufacturing robots just can't. Cobots are one aspect of these. These are robots that are lower powered. They're designed to work alongside humans doing things like packing boxes or moving things around.

They can be trained very easily by a human to help them with their day-to-day tasks. I think you're right as well on that demographic point. One of the concerns about the development of AI is what will this do to the jobs market. In Japan, there's a pressing urge here to keep things working with a working age population that's declining. In many ways any of these types of progress are just helpful in a Japanese context. We've got names in the portfolio like FANUC, for example, which is the world's leading industrial robot manufacturer. It's been pushing into cobots. I think over the long-run, there's going to be a lot of change in this area and I think we need to keep alive to where the new opportunities are going to be coming from here.

Do you think Japan, in particular, has an advantage in using AI to treat real-world problems?

I think Japan is in a fantastic place to do that because it's got some of the real high-end manufacturing skill in terms of making the devices. Of course, if those devices have a greater awareness of the world around them, then that's a massive gain. Also, a lot of Japanese software is

perhaps, a bit dated nowadays. What AI allows is for people potentially to get more out of very legacy office type systems. Without having to rewrite the whole thing, you can get data. You can manipulate it with AI and you can make progress. I think one of the real benefits of AI so far, has been in terms of productivity of people who write software. Someone working alongside AI can often generate code a lot quicker and that is a real benefit in Japan, where there's not a surplus of people with that skillset.

Yes, I think Japan is well-placed to benefit from this area. At the same time, I think we need to be aware that there are other countries working hard in this area. I think it's going to be competitive one.

We spoke earlier about some of the portfolio specifics. You've got a high active share. You look very different to the index. Let's breakdown the idea of gearing. Your use of gearing is around 15%. Could you explain to us in plain terms why it's kept at that level and what opportunities or risks it brings?

Gearing is basically borrowing a little extra money in order to invest a bit more in the companies that we like. If the value of the portfolio starts at 100% of the net assets, we can borrow a bit more money to invest in the equivalent of 115% of the portfolio. What that means is if those assets appreciate over time, there's an added benefit to shareholders. Of course, in Japan, the cost of the borrowings is very low. The hurdle that we have to get over for that to be value-added to shareholders is lower than it would be in other parts of the world. Turning to the risks, the obvious risk is if we're wrong and the share prices in the portfolio decline, then that process is accelerated by using gearing.

Obviously, to be clear, we're using quite a small amount of leverage here. We're only using another 10%, 15% rather than a very big number. That process is incremental, but undoubtedly, if we have market setbacks or individual stock problems, it does cause pressure when that happens.

We're reaching the end of the interview part of the session. We're now going to move on to the audience Q&A. I've got quite a few come through. First on the list is, "What are the differences in strategy between BG Japan and BG Shin Nippon?" Could you talk about what's different between the two strategies?

In terms of the similarities first of all, they're both managed by our team. They're both looking for growing businesses and investing in those businesses for the long-run. The main difference is Shin Nippon invests in much smaller companies than does Japan trust. Japan trust invests all the way through the market-cap spectrum. If we can find a big fast-growing company like Softbank, which is

one of the five biggest companies in Japan at the moment, then we'll happily invest in it. We won't go as far down the market-cap spectrum as Shin Nippon does. Typically, we will stop at something around ¥50 billion roughly, which is £250 million. So, we go quite far down, but not as far as Shin Nippon.

The other small difference is, Shin Nippon invests in a handful of private businesses. Whereas in Japan trust, we only invest in listed companies. That's a bit of a difference as well. The fundamental philosophy is the same and I guess, what we've seen in recent years has been Shin Nippon has been more domestically focused than Japan trust because it focuses more on those smaller businesses. That's also a bit of a difference between the two.

A similar question is “Whether or not there would be any reason to merge the two trusts [marker 30:00] for performance related reasons?”

I can’t talk about any specifics there. They’re both listed companies with independent boards and anything like that would be a decision for them, rather than something for me.

We’ve got another question here in relation to AI exposure. “I’m looking for Japanese exposure with the trust that I cannot gain elsewhere.” They’re concerned about US AI exposure, but they want AI exposure. It’s geopolitics wrapped up in which AI company you’re backing. How does geopolitics play into AI exposure?

The vast majority of the businesses that we invest in that are at the front-end of AI are more domestic businesses. Softbank is the exception to that because it’s a big investor in US technology companies. Softbank is under 10% of the portfolio. It’s not the overall driving force there. The other thing we’ve got access to in Japan is some of what I think of as hard technology companies. Companies, for example, that make semiconductor production equipment, which is then used to make the chips which are put into the datacentres to run these AI models. Now that’s an interesting area and I think we’ve got some investments there, but overall, I’m a bit more positive about what AI can be used to do in terms of the applications of it, rather than necessarily the hardware that’s going into it.

I think over time, those areas can be pretty cyclical and there’s a lot of competition there. I think companies that can use AI to develop their business model and do well, things like Bengoshi or some of the others that we talked about earlier. They’re very well positioned to do well over the next while. In terms of geopolitics, many of the Japanese companies we invest in, in AI are either domestically focused or they’re basically, global businesses. They’re not just exposed to the US. If, for example, it turns out that China is a winner in the AI space, they’ll almost be certainly using an element of hardware from Japan to do the manufacturing of their chips. There is an opportunity there for the Japanese companies.

Would you say Japan has a unique position in being completely integral to the AI infrastructure?

I think it’s one of the important countries, certainly. I think one of the benefits that Japan has as a country is, it’s close to America. It’s never going to be cut off from supplying American companies. Also, Japan has perfectly good relations, at the moment, with other countries who are also AI players. It’s not seeking to cut anyone off from the technology. In that sense, it does seem like it’s well-positioned geopolitically, but obviously, this is a complicated area and things could change.

We've got another question here about generational ownership. "How do you assess opportunities for growth in SMEs, resulting from changes in generational ownership and arising from M&A activity?"

We've actually got a company in the portfolio called Nihon M&A, which specialises in precisely that type of generational shift from a small business owner who's typically built the business up over 40, 50 years and is seeking retirement, but they don't have a natural successor. Nihon M&A will help that individual to find someone to sell the business to. That's at the very small end. Then as we get up into the listed companies that we invest in, it tends to be less of a problem, succession for those businesses. If there's not a family member available to take over, often they will turn to professional management at that time. The business will happily continue, but certainly, you're quite right, it's an issue at the small and medium company area. Nihon M&A is trying very actively to help with that challenge.

We have another one here on, "Are there any sectors that you would avoid investing in or that you are deliberately steering clear of?"

There're certainly some areas, big areas of the Japanese market that we have no exposure to or very little exposure. For example, the car manufacturers. We have no exposure to a car manufacturer within the portfolio. This is just because Japan's really good at making cars, but they look a lot like the cars of the past rather than the cars of the future. I think as the world is transitioning away, over time, from combustion engines and heading in the direction of battery/electric, that's challenging for the Japanese. Also, they're not particularly strong at autonomous vehicles. On a five-to-ten-year view, we think their competitive position is weakening so, we don't invest in that area. We also don't have much in the mega-bank area. In fact, we don't hold any mega-banks.

Again, we don't see those as particularly high growth businesses. In general, there's quite a few what I would think of as old-fashioned Japanese companies. For example, the iron and steel area are relatively undifferentiated manufacturing businesses that we tend to avoid. We're much more tilted towards where we believe the future growth is, rather than some of these companies that they're perfectly decent businesses, but they're not ones that we believe have much growth ahead of them in our opinion.

Cars, potentially an area where Japan is quite so innovative.

Yes, I think that's right.

We've got a question here about corporate reform and the changing dividend culture. "Are you seeing this payout within the portfolio with much more income?"

Yes. This has been a huge change in Japan over the 20 years in terms of Japanese companies paying more out in dividends. Then doing buybacks. Now, the governance code encouraging companies to focus on their return on equity. That's often resulted in companies thinking about their balance sheet and crossholdings more. Yes, these things are definitely helpful. For us, as growth investors, we're mainly focused on the long-term sales and earnings growth. You can see from Japan trust over the years, that there's been dividend growth coming through and that dividend growth has been caused by the growth in dividends from the underlying businesses that we hold.

Yes, it is a big trend in Japan. It's one that I think is a very helpful trend. If a company has cash and it doesn't have a great deal of use for it, obviously as shareholders, we would be supportive of that cash being paid out to shareholders either through dividends or through buybacks. Of course, if they have a good use for that cash, we prefer if they reinvested it in the business for more growth. In general, in Japan, there's plenty of cash for both.

I've got quite a specific question here around SBI Holdings, which has a major holding in Ripple. "What's the connection between SBI Holdings and Ripple?" essentially.

SBI is an online financial brokerage initially. Then it's done a variety of other things in the online financial space over time. It was an early investor in Ripple Labs, which is the originator of the Ripple coin. Now, this is an interesting question and I've seen the research myself. They've tried to work out how much Ripple SBI holds and then compare that to the price of [marker 40:00] XRP, which is the Ripple code and made a comparison between the two. When we talk to SBI, they say Ripple really isn't about being used as a store of value. It's more intended to be a source of transactions and that is their main interest in holding Ripple is as a source of transactions.

Yes, undoubtedly, if the price of Ripple goes up, I guess it's a good thing for SBI. We would hold SBI even in the absence of Ripple, it's not the main reason we hold it. We're quite excited, for example, about the SBI Shinsei Bank. They acquired this bank Shinsei. They've turned it around and they'll probably be thinking about IPOing it in the next while. We think they've added a lot of value by doing that. Personally, I think the Ripple thing is interesting, but I don't think it's the core reason why one would be excited about SBI.

“Warren Buffett has invested considerable sums in the major trading houses where he sees longer-term value. Discuss.”

I think what Warren Buffett is identifying is that the Japanese stock market trades quite lowly rated compared with his typical hunting ground and he's invested in those trading companies. We have invested in trading companies for many years, but we've tended to sell out of them over the past couple of years. We're, to some extent, selling to Warren Buffett. That on the face of it, is a dangerous thing to do, clearly, but from our perspective, we've got a much wider opportunity set than he does. He is a very large investor now and therefore, cannot go down the market-cap spectrum in the way that we can. We've got a lot of respect for the Japanese trading companies, but they also have a pretty cyclical record of earnings.

Over the long-haul I suspect that he is correct that these businesses are decent businesses, but over the shorter-term and by that, I mean five to ten years, it's perfectly possible that these companies have a significant earnings setback and their share prices likewise. It's an ongoing area of debate. For us, trading companies are certainly very interesting, but they're not a big part of our portfolios at the current time. I think that just reflects a different opportunity set that we have.

Another question here about the Softbank exposure. “Do the other Baillie Gifford trusts own Softbank?”

Softbank is also owned by the Baillie Gifford Japanese Fund, but it's not widely held outside our team. I think one of the reasons for that, in discussion with colleagues is, a number of the other Baillie Gifford trusts have AI exposure more directly through US businesses in that space. Often what they're looking for from Japanese holdings is something that does something a bit different. Whereas in this case, Softbank is the company that we have access to. It's also worth noting, just while we're talking about Softbank, a lot of people will be thinking Softbank has a big connection with Alibaba, the China internet company. That would have been true a few years ago, but Mr Son has largely sold out of that Alibaba stake.

The big parts of the Softbank value nowadays, are ARM, the UK based chip design company and then also, the Venture Funds, so-called vision funds, which have a lot of earlier stage companies. They've been acquiring a few things in the AI space. For example, the holding in OpenAI and some ventures to rollout cloud computing, etcetera. I think it's absolutely fascinating that Mr Son, who was an early investor in the internet way back with Yahoo Japan and then was an earlier investor in Alibaba, fairly successfully as well, he's now managed to be one of the earlier outside investors into OpenAI, which

makes the ChatGPT models. Once again, he seems to have positioned himself where the growth opportunity is and I think that's something that's very valuable.

A question here on macroeconomics. "Japan's position given a global slowdown, how resilient is it and what defences does it have to sustain its position?" I suppose, and your portfolio.

I think that's a very good question because we need to distinguish between Japan, the country, Japan the stock market and [unclear 45:58] portfolios. Japan is exposed to any kind of global slowdown. It does have a large manufacturing sector and that would be hit if we had a big slowdown. In general, the stock market is also quite cyclical because of those large weightings in some of those manufacturing areas. Particularly cars tend to be very cyclical. I believe that our portfolios are substantially less cyclical than that. In terms of the earnings of a lot of the internet type of businesses that we invest in, and many of the things we've talked about today, they're often not particularly cyclical businesses.

If anything, I think one of the reasons why we've not delivered returns that are as high as the Japanese stock market in recent years has been that lack of cyclical exposure in our portfolios. In the event of a slowdown, I would expect that potentially to work the other way round. Actually, I would expect our portfolios to be quite a lot more resilient than the Japanese stock market as a whole. Therefore, I think often it's at a time of slowdown or challenge that actually, growth portfolios come to the fore. We saw that during COVID, which was a very bad slowdown and that was a very difficult time, generally, but it was a relatively good time for our portfolios. Structurally, they're still similarly setup in terms of investing in those long-term growth opportunities that are fundamentally not as cyclical.

Of course, I suppose growth investing was a lot easier when you had zero interest rates and money was cheap to borrow to fund your growth. We are in a different regime, aren't we?

I think that's right, although in Japan, the multiples that growth companies trade on seem to assume quite a high discount rate already. It's not something that keeps me awake at night if the Bank of Japan was to put interest rates up a little bit more.

Matthew, that is all we've got time for today. Thank you so much for all of your perspective and it's been fascinating to hear your insights into both the Japanese economy and, also, how you manage the trust. Congratulations once again for 20 years of managing Japanese equities at Baillie Gifford. To our audience, thank you all so much for tuning in and thank you for your extensive questions, which I hope we've managed to get through as many of them as we could. If you do want to follow-up, there is a couple of papers that I referenced throughout the session. Do go

onto Baillie Gifford's website for their healthcare innovation paper and, also, they're going to put out a paper about corporate reform as well. So do take a look at those. Thank you all so much.

The Baillie Gifford Japan Trust PLC

Annual discrete performance to 30 June

	2021	2022	2023	2024	2025
Share Price (%)	31.6	-31.3	12.1	-5.2	12.9
NAV (%)	24.6	-26.4	9.0	3.9	10.2
Index* (%)	10.7	-8.4	12.9	13.5	6.9

Source: Morningstar, Tokyo Stock Exchange. Total return in sterling.
*TOPIX (in sterling).

Past performance is not a guide for future returns.

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Important information and risk factors

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The specific risks associated with the European Growth Trust include:

- 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 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.
- Market values for securities which have become difficult to trade may not be readily available and there can be no assurance that any value assigned to such securities will accurately reflect the price the Trust might receive upon their sale.
- The Trust can make use of derivatives which may impact on its performance.
- Investment in smaller companies is generally considered higher risk as changes in their share prices may be greater and the shares may be harder to sell. Smaller companies may do less well in periods of unfavourable economic conditions.
- The Trust's exposure to a single market and currency may increase risk.
- Share prices may either be below (at a discount) or above (at a premium) the net asset value (NAV). The Company may issue new shares when the price is at a premium which may reduce the share price. Shares bought at a premium may have a greater risk of loss than those bought at a discount.
- The Trust can buy back its own shares. The risks from borrowing, referred to above, are increased when a trust buys back its own shares.
- The aim of the Trust is to achieve capital growth. You should not expect a significant, or steady, annual income from the Trust.
- The Trust is listed on the London Stock Exchange and is not authorised or regulated by the Financial Conduct Authority.

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.