

BAILLIE GIFFORD JAPANESE FUND - GBP

INVESTMENT RESEARCH NOTE
FEBRUARY 2024

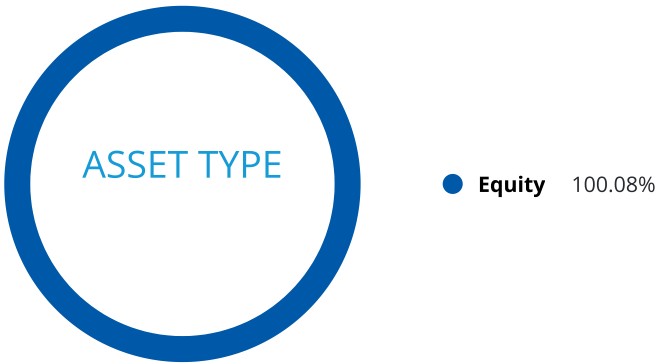
Risk warning: The past is not necessarily a guide to future performance. The value of your investment and the income from it can fall as well as rise and is not guaranteed. You may not get back the full amount invested. Our views are based upon our understanding of current legislation in England. Levels and bases of, and reliefs from, taxation are subject to change and their value to you will depend upon your personal circumstances. You should not act on any of the information without seeking professional advice. clarity Ltd is authorised and regulated by the Financial Conduct Authority (FCA).

SUMMARY

Baillie Gifford ('BG') is an independently owned investment partnership, based in Edinburgh, with a strong reputation as a long term growth investor. The firm is into the sixth generation of the private partnership and has seen wholly organic growth since 1908. Staff tenure is characterised by longevity and low turnover. It has a particular expertise in equities and a strong regional knowledge of Asia/Emerging Markets.

The fund is managed by Matthew Brett, part of Baillie Gifford's 11 person Japan Equity team (8 investment managers, 1 analyst, 1 product manager, 1 research consultant). Brett joined Baillie Gifford in 2003 and has nearly 20 years of experience investing in the Japanese market. A collegiate, team approach is adopted to managing the portfolios. The firm has a long history of investing in Japanese equities, launching an investment trust back in 1981.

This is a bottom-up, long only fund focused on exploiting quality and growth in the Japanese equity market. The Fund is benchmarked to the TOPIX index and primarily invests in large and mid-capitalisation stocks and will usually hold between 35 and 55 companies. ESG plays a modest part of the fund process, despite the wider BG approach to ESG. With no formal scoring system, but some input from the BG ESG team, the fund scores 2 out of 4 on the Collidr internal ESG scoring system.



INVESTMENT PROCESS

Baillie Gifford adopts a sustainable-growth investment philosophy, looking for companies of sufficient quality to drive higher than market earnings growth over the long-term. Portfolios will tend to be concentrated with high active share. The team have a 'Followed List' of some 350 stocks which they compile research on. The team seek growth in all its forms, and accordingly while the portfolio will include a high allocation to longer-term resilient structural growth companies, some more cyclical businesses will also be included.

Four key factors are sought in a stock, positive industry background, durable competitive advantage, strong financial characteristics and a management attitude that is aligned with the interests of shareholders.

Industry Background and Competitive Advantage – Baillie Gifford will assess the industry and market in which the company operates and evaluate whether the company possesses any clear competitive advantages. Considerations include the growth rate of the industry, the structure of pricing, barriers to entry, the uniqueness or otherwise of strategy and any enduring cost advantages. The team conduct c.500 company meeting each year too, in Japan and at their Edinburgh office (primarily those on their Followed List).

Financial Characteristics and Management Alignment – These identify whether Baillie Gifford believe the company will successfully execute on the opportunity that exists, for the benefit of shareholders. The financial structure of the company is a key focus area, in particular whether growth can be funded from internally generated cash flows. The team form judgements on management's capability and seek tangible evidence that management run the business in shareholders' interests. In assessing management, Baillie Gifford have developed a set of questions (which they call Kenshiki) as a guide to research. These questions are intended to assess the idiosyncratic nature of the Japanese market.

Valuation is the final consideration, Baillie Gifford consider whether the share price of the company (as a central case) is likely to double over five years. If one of the four factors the team look for is compromised, the stock is a likely sell candidate.

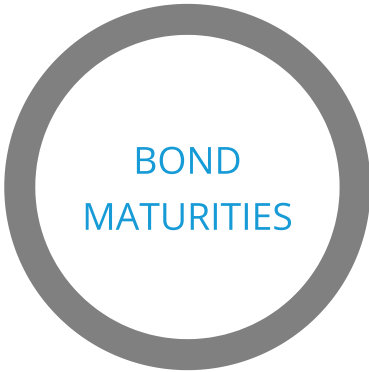
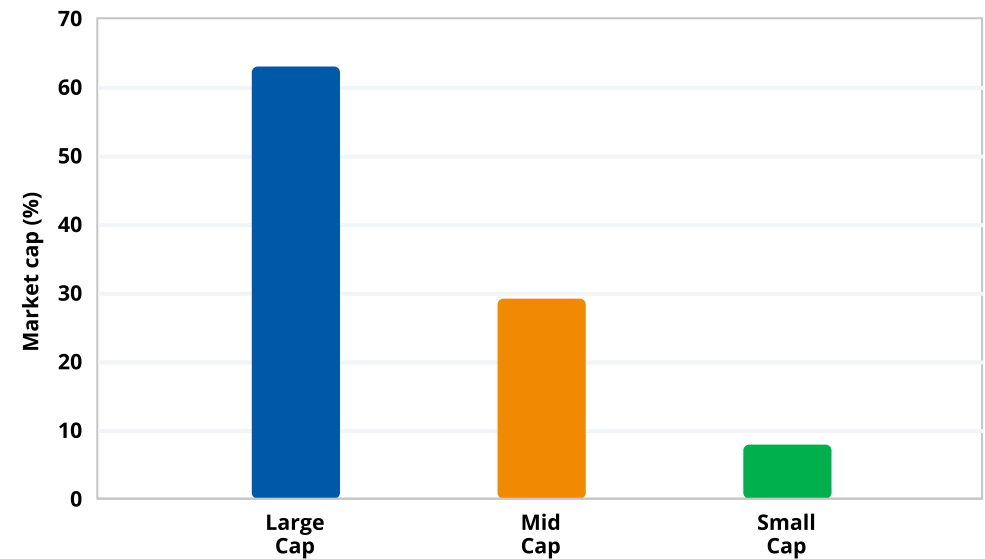
Liquidity risk is considered in stock positioning within the portfolio. Minimum market cap is Y150bn and maximum stock position is 10%. Individual stock weightings are a function of the team's conviction view.

AGGREGATED NET EXPOSURE

REGIONAL EXPOSURE



EQUITY MARKET CAP (%)



BOND
MATURITIES

Not Applicable



BOND
RATINGS

Not Applicable

OVERALL PERFORMANCE

● Baillie Gifford Japanese Fund B Acc ● Topix Total Return GBP

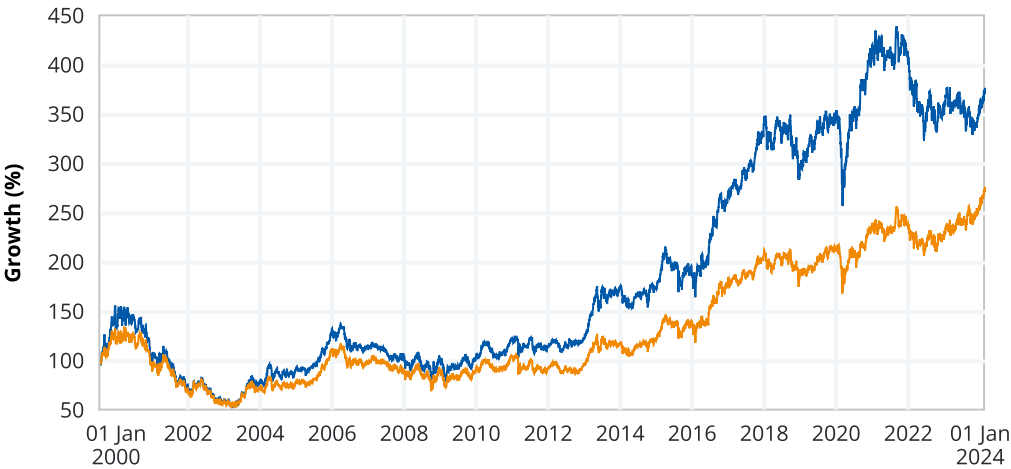
GROWTH (%) - OVER 1 YEAR

1 Mar 2023 - 29 Feb 2024



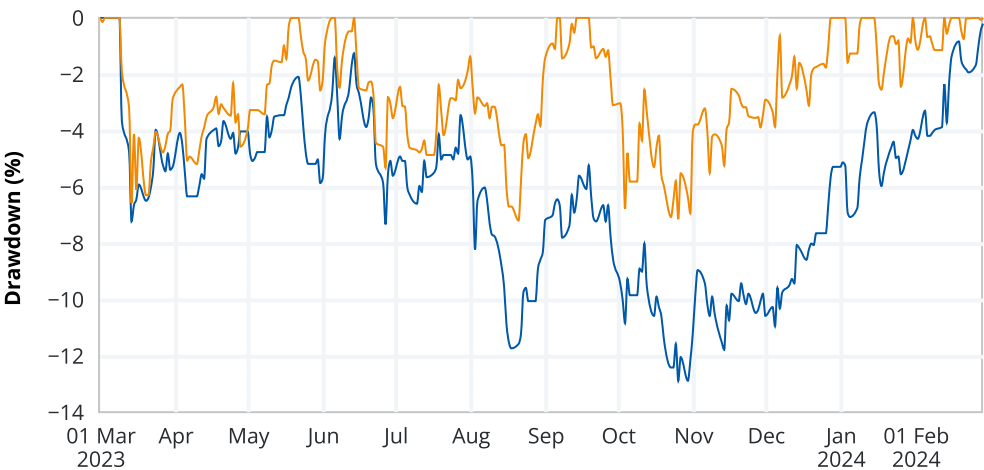
GROWTH (%) - FROM INCEPTION

4 Aug 1999 - 29 Feb 2024



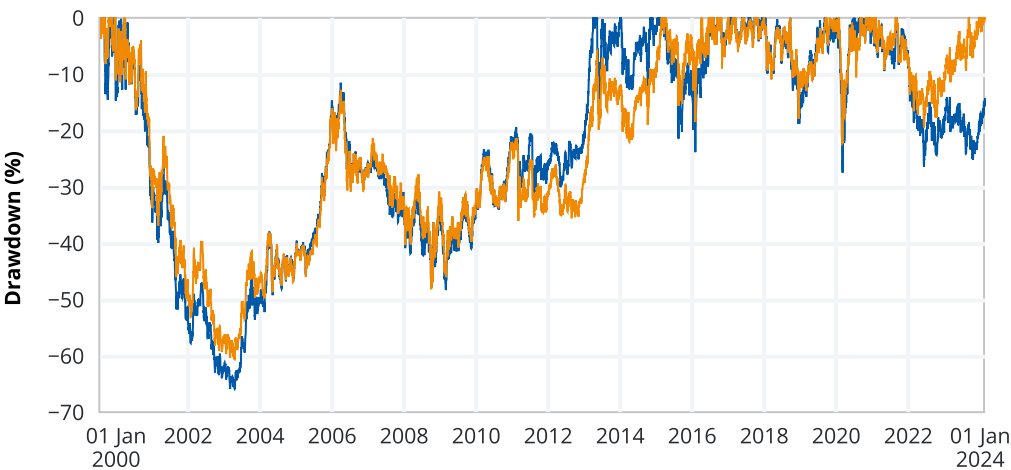
DRAWDOWN (%) - OVER 1 YEAR

1 Mar 2023 - 29 Feb 2024



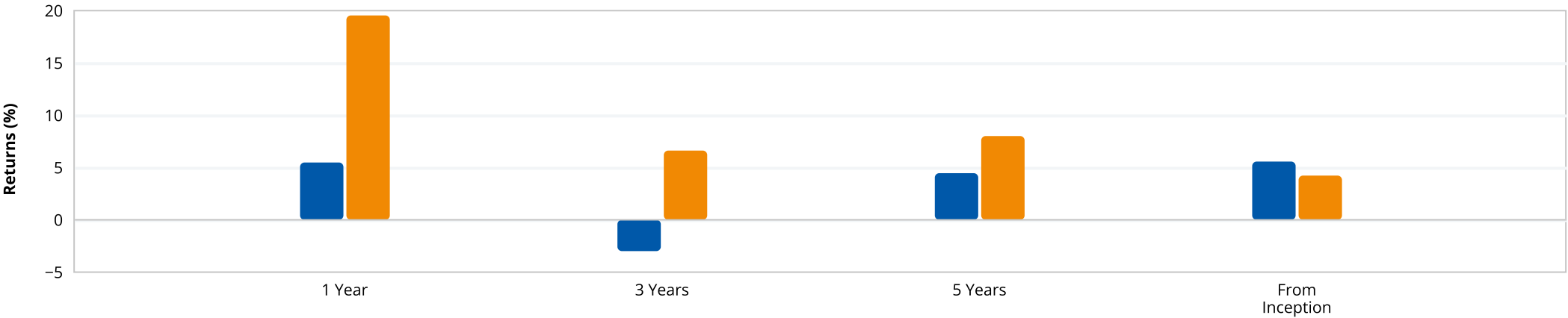
DRAWDOWN (%) - FROM INCEPTION

4 Aug 1999 - 29 Feb 2024



RETURNS

● Baillie Gifford Japanese Fund B Acc ● Topix Total Return GBP



MONTHLY BREAKDOWN AND YEARLY TOTALS (%)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YEAR
2024	1.38	3.93											5.37
2023	4.15	-2.69	0.11	1.33	-1.91	0.28	0.61	-3.47	-0.23	-3.95	2.68	4.99	1.46
2022	-7.21	-0.94	0.63	-4.24	-1.37	-5.92	7.06	1.15	-5.71	-2.36	5.14	0.06	-13.79
2021	-1.17	3.27	0.19	-0.38	-1.25	1.61	-3.40	2.48	4.01	-3.16	-0.38	-0.39	1.12
2020	-1.10	-9.15	-5.88	10.36	8.83	1.14	-4.29	4.13	8.45	-2.40	8.36	1.04	18.63
2019	4.61	0.79	4.04	4.08	-2.89	4.90	3.13	-2.87	4.66	-2.59	0.58	-0.81	18.50

Capped to 6 years.

ANNUALISED ROLLING RETURNS (%)

	1 YEAR	3 YEAR	5 YEAR	INCEPTION
●	5.48	-2.99	4.46	5.57
●	19.54	6.62	8.01	4.23

CUMULATIVE RETURNS (%)

	1 YEAR	3 YEAR	5 YEAR	INCEPTION
●	5.48	-8.68	24.27	276.48
●	19.54	21.13	46.76	175.91

● Baillie Gifford Japanese Fund B Acc ● Topix Total Return GBP

PERFORMANCE - OVER 1 YEAR

1 Mar 2023 - 29 Feb 2024

RETURNS (%)	5.48	19.54
VOLATILITY (%)	14.04	15.68
ALPHA	-0.75 *	
BETA	0.92 *	1.00
CORRELATION	0.88 *	1.00
SHARPE RATIO	0.04	0.89
SORTINO RATIO	0.06	1.30
MAX DRAWDOWN (%)	-12.89	-7.20

*Calculated over a 3 year period where history permits.

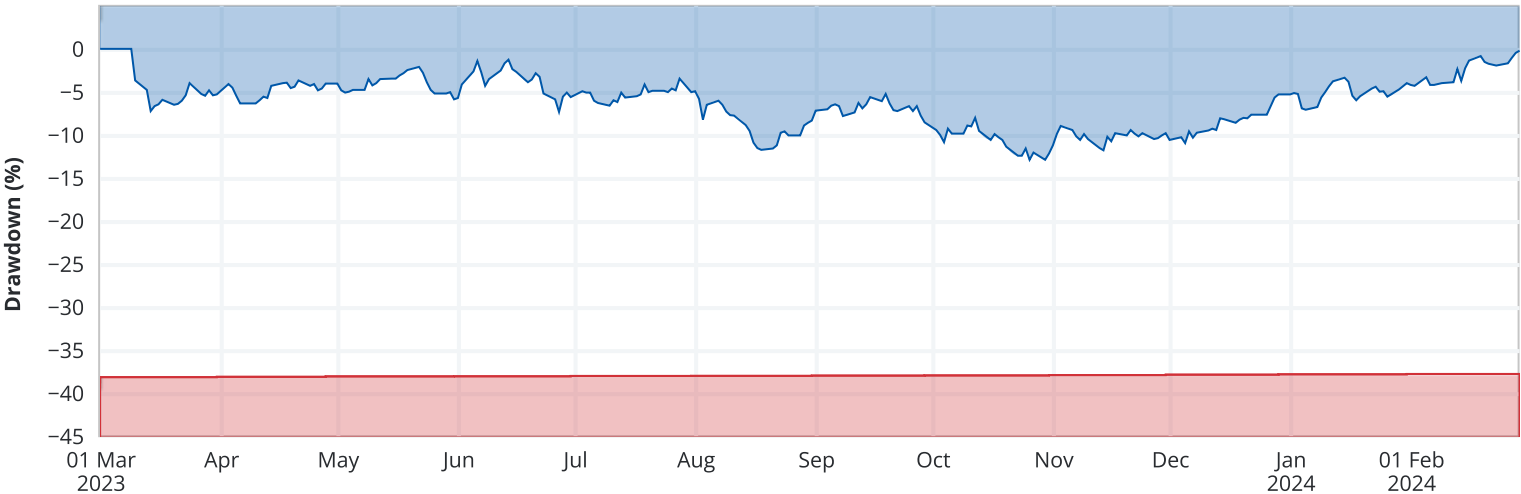
PERFORMANCE - FROM INCEPTION

4 Aug 1999 - 29 Feb 2024

RETURNS (%)	5.57	4.23
VOLATILITY (%)	20.57	21.33
ALPHA	0.12	
BETA	1.04	1.00
CORRELATION	0.93	1.00
SHARPE RATIO	0.15	0.08
SORTINO RATIO	0.21	0.12
MAX DRAWDOWN (%)	-65.88	-60.65

SIMPLE STRESS TEST DRAWDOWN (%)

1 Mar 2023 - 29 Feb 2024



Stress test notes

The chart shows the calculated drawdown over a trailing 12-month period. The Review Point is a potential intervention point. Any drawdown above this line indicates a typical drawdown in a normal market cycle. Should the drawdown exceed the Review Point, then this indicates that market conditions may be abnormal. This is the point at which immediate action should be considered.

DISCLAIMER

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