Baillie Gifford™

Japan Growth Quarterly Update

30 September 2025

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It should not be assumed that recommendations/ transactions made in the future will be profitable or will equal performance of the securities mentioned.

Potential for Profit and Loss

All investment strategies have the potential for profit and loss.

Stock Examples

Any stock examples, or images, used in this document are not intended to represent recommendations to buy or sell, neither is it implied that they will prove profitable in the future. It is not known whether they will feature in any future portfolio produced by us. Any individual examples will represent only a small part of the overall portfolio and are inserted purely to help illustrate our investment style. A full list of portfolio holdings is available on request.

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Product Overview

Japan Growth is a concentrated, regional equity strategy that aims to produce above average long-term performance through investment in Japanese equities with a market cap of greater than Y150bn. We believe the Japanese equity market offers active managers a broad selection of high quality companies capable of delivering attractive and sustainable earnings growth for shareholders.

Risk Analysis

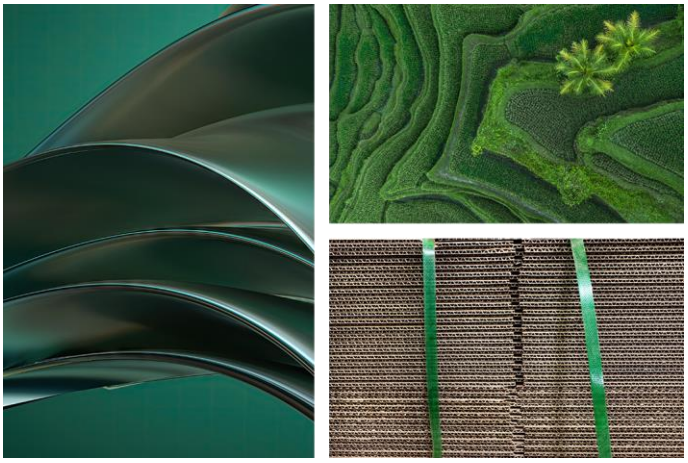
Key Statistics	
Number of Holdings	55
Typical Number of Holdings	35-55
Active Share	79%*
Annual Turnover	9%

*Relative to TOPIX. Source: Baillie Gifford & Co, Japan Exchange Group.

Taking stock: cyclical boosts are giving way to structural undercurrents.

Digitalisation, Asian consumption, and gaming/IP are reshaping the investment landscape.

In `The Long Game: Engagement and Activism in Japan', we reframe corporate reform as a catalyst for sustained growth.



Baillie Gifford Key Facts

Assets under management and advice	US$286.9bn
Number of clients	552
Number of employees	1655
Number of investment professionals	365

Last year, in the paper '*Japan: the next opportunity*', we highlighted structural undercurrents with the potential to reshape the market. Twelve months on, many of those forces are beginning to deliver, taking on a greater share of market returns - a shift that has helped our portfolio pull ahead of the benchmark both for the quarter and year-to-date.

This quarter, we review how the tides are shifting and what that means for portfolio performance. Our conclusion remains consistent: while cyclical tailwinds still grab attention, their influence is waning, giving way to the enduring pull of Japan's structural growth drivers.

Accelerating structural trends

Several central themes were identified as key drivers of portfolio performance last year. Here, we review a few that have had a notable impact on performance: digitalisation, Asian consumption, and gaming - a new theme that has emerged as central to the portfolio and emblematic of Japan's unique opportunities.

Disruptive Digitalisation Matters

Two significant holdings, central to driving recent returns - SoftBank and SBI Holdings - exemplify how digital solutions are emerging as an overlooked but powerful driver of change in Japan.

SoftBank's resurgence has been supercharged by its positioning at the heart of the AI revolution. Its dominant stake in ARM - whose chips power nearly every smartphone and half of all CPUs globally - is moving beyond low-value licensing toward greater control of the compute stack, with the new v9 architecture already driving faster royalty growth from hyperscale cloud providers. Add to this a major stake in OpenAI (sitting within a revitalised Vision Fund alongside other winners like ByteDance), and the redeployment of mature telecom cashflows into next-generation AI infrastructure bets, and SoftBank now looks less like a legacy tech conglomerate and more like a levered play on the defining platform shift of this era. Our recent discussion with Goto-San, Masayoshi Son's right-hand man, underscored just how central SoftBank intends to be in shaping the AI epoch.

Japan's leading financial disruptor, **SBI Holdings**, has also been racing ahead, with the share price surging on the back of record fundamentals – with quarterly pre-tax profit up 75%, reaching new highs. Yet the biggest catalyst still lies ahead: the planned IPO of **Shinsei Bank**, once the failed Long-Term Credit Bank of Japan, now transformed under SBI's stewardship. Since taking control, SBI has doubled operating assets, lifted deposits 2.3x, quadrupled net income, and boosted ROE by 6.6 percentage points to ~9% (an impressive feat in an industry plagued by structural impediments and bloated cost structures). Having acquired Shinsei for ¥570bn in 2023, they now aim to relist it as Japan's "fourth megabank" at a valuation of around ¥1.5tn - a scale that would rival SBI's own ¥2.2tn market cap. Our meetings this quarter with SBI CFO Yasuo Nishikawa and Shinsei President Katsuya Kawashima highlighted the ambition and confidence of management in unlocking this next phase of growth.

Together, these examples capture the technological potential driving change beneath Japan's corporate veneer.

Maintaining Access to the Asian Growth Story

Asia remains a powerful secular engine for the portfolio, underpinned by expanding middle-class demand, infrastructure investment, and a steady shift toward higher-value products and services. In the near term, however, many holdings have been challenged by the sharper cost-consciousness that has taken hold in China.

Sysmex, a global leader in haematology equipment, has been one of the portfolio's weakest performers this quarter, with its share price sliding in step with softer earnings. Despite a challenging first quarter, management has reaffirmed full-year guidance, reflecting confidence in a second-half recovery. As Iain Campbell noted in his September meeting, China - which represents ~25% of sales - has endured six years of headwinds, from "buy China" directives to anti-corruption campaigns and inventory overhang. Encouragingly, conditions there are starting to stabilise, while growth in other markets such as India is accelerating, and in the US, the shift to a direct sales model is helping win market share. With cost pressures easing and margins expected to recover toward 20%, Sysmex is well positioned for an inflection. Importantly, the company is evolving beyond in vitro diagnostics toward the broader healthcare continuum - spanning prevention, prognosis, and treatment - and doing so in markets with vast headroom for growth. To put it in perspective, per capita healthcare spending in India is roughly 1/60th of Japan's, highlighting the scale of the long-term opportunity.

Pivoting to **SMC**, the company remains at the centre of machine movement, with roughly 35% of the global pneumatic control equipment market. Despite this dominant position, it has faced a third straight year of pressure as two of its largest end-markets - semiconductors and autos – remain weak. Semiconductor customers, particularly in memory, have sharply curtailed capex, while auto demand has been constrained by the EV transition and the glut of Chinese production. These headwinds have weighed on earnings, yet SMC has successfully defended its global share against rivals like Airtac. At the same time, management are pressing ahead with "self-help" initiatives - upgrading logistics, CRM, and IT systems, and working more closely with distributors to improve working capital efficiency. They are also leaning into the future: capex guidance has been raised to a record ¥180bn, including over ¥100bn for a new R&D centre, underlining their confidence and determination to invest through the cycle rather than wait for it to turn.

Together, these names underline the dichotomy of Asia exposure today: short-term volatility and cyclical headwinds, set against powerful secular trends in healthcare and industrial upgrading. The Japanese team's conviction remains firm - these companies combine scale, market leadership, and structural demand tailwinds that underpin their long-term compounding potential.

Turning the Tap on Manga

Another exciting portfolio theme that has moved into focus is gaming. **Nintendo** sits at the centre of this opportunity. While the stock has given back some gains this quarter, its strong run year-to-date reflects the company's ingenuity in evolving the console platform - expanding margins through higher price points, better back-catalogue compatibility, and stronger third-party applications. The newly launched Switch 2 has already become its fastest-selling console ever. What remains largely absent from consensus, however, is an appreciation of the latent value in Nintendo's evergreen franchises - Mario, Zelda, and Donkey Kong - as they increasingly shift into recurring monetisation mode. At September's *Nintendo Direct*, coinciding with the 40th anniversary of Super Mario Bros, the company unveiled what looks like the beginning of an annual film cadence: *Super Mario Galaxy* (2026), a Zelda feature slated for 2027, and trademarks already registered for a Donkey Kong release in 2028. Given that the 2023 Mario movie cost ~$100m to produce yet grossed over $1.3bn, the potential for Nintendo to evolve from a hardware cycle-bound company into a more Disney-like IP powerhouse is clear.

And this is not an isolated story. Gaming is no longer a niche subculture; it has become mainstream global entertainment and Japan's most valuable cultural export. Anime is Netflix's fastest-growing genre; **Sony**'s *Demon Slayer* shattered box office records for the genre, surpassing Pokémon's 1999 movie record; and Netflix's K-pop demon hunters project has become its most-watched original film of all time. Japan's creative IP is going global at speed, and companies like Nintendo are positioned to turn cultural heritage into enduring value.

The Cyclical Backdrop: Still Noisy

These structural growth stories have at times struggled to pierce the macro veil that surrounds Japan, yet their momentum is steadily building. Meanwhile, whilst cyclical factors still dominate the headlines, their sway is fading as the economic and monetary overhang from Covid recedes. The auto sector - long a cornerstone of Japan's market returns - offers the best illustration of this transition.

Autos remain Japan's largest industry, anchored by its biggest company and employing nearly a tenth of the workforce. The sector became a quintessential beneficiary of the ramp-up in volumes and currency dislocations experienced post-COVID. Take Toyota's RAV4 – its most popular US car - as an example. Retailing at $30,000, this model would have earned the company ¥3.3m in 2021, but a staggering ¥4.7m at last year's exchange rates. That windfall also extended to Japan's megabanks, where Mitsubishi UFJ's legacy stake in Morgan Stanley began to contribute 30–40% of group profits.

But the free lunch is over. Having peaked above ¥161 to the dollar last year, the yen has begun to recover, bringing an end to its five-year decline. With the currency still deeply undervalued and the weakest among the G10, and with rate differentials set to narrow as US policy eases while Japan tightens, the likelihood of further appreciation remains high. This threatens to erode the inflated margins of Japan's cyclical exporters. For automakers, this challenge is compounded by intensifying competition from Chinese OEMs such as BYD, which is now outselling Toyota in EVs in its own backyard. Reflecting these pressures, autos have shifted from top-performer to one of the weakest sectors year-to-date.

Reframing Corporate Governance Reform

Japan's "value" trade has also been fuelled by corporate reform. Over the past five years, governance initiatives - from reducing cross-shareholdings and ramping up buybacks - unlocked latent value in a market where nearly 60% of TOPIX companies were net cash and half traded below book. Share repurchases surged as a result, with TSE data showing ¥2.8 trillion in 2023, ¥4.5 trillion in 2024, and ¥7.6 trillion in the first eight months of this year, reflecting a sustained 70% year-on-year growth pace. Yet the pool of opportunities has shrunk; only about a quarter of companies now trade below book; even the megabanks - Mitsubishi UFJ, Mizuho, and SMFG – trade above book. This matters because buybacks are most accretive when shares trade at a discount, effectively buying ¥1 for less. At higher valuations, indiscriminate repurchases risk destroying value rather than creating it.

Therefore, the next leg of equity returns must come from real earnings growth, capital efficiency, and disciplined reinvestment, not financial engineering. The governance story is no longer about quick fixes or saving face for the salaryman; it is about unleashing long-term growth potential. Progress will likely be broad-based but gradual as cultural and managerial inertia adjust.

To explore this further, we have drawn on Donald's 37 years of experience in a paper, '*The Long Game: Engagement and Activism in Japan*'. The paper chronicles how Japan's corporate landscape - shaped by cartels, clustered AGMs, and deeply rooted cultural practices - is evolving, and why patient, culturally attuned engagement is now unlocking genuine value. This shift makes today potentially the most exciting moment for Japan in decades.

Conclusion

Japan remains one of the most attractive global allocations, with an earnings yield well above Europe and the US. More importantly, structural drivers - digitalisation, Asia's rising consumption, and the globalisation of Japanese IP - are beginning to outweigh fading cyclical tailwinds. Companies like SoftBank, SBI, Sysmex, SMC, and Nintendo highlight how ambition, innovation, and cultural reach are reshaping Japan's corporate landscape. The message is clear: the easy cyclical gains are behind us, and it is structural undercurrents that are now powering the next wave of long-term returns.

Performance Objective

2%+ p.a. over 5 years vs index.
The performance objective is aspirational and is not guaranteed. We don't use it to compile the portfolio and returns will vary. A single performance objective may not be appropriate across all vehicles and jurisdictions. We may not meet our investment objectives if, for example, our growth investment style is out of favour, or we misjudge the long-term earnings growth of our holdings.

Periodic Performance

GBP	Composite Gross (%)	Composite Net (%)	Benchmark (%)	Difference Net (%)	Difference Gross (%)
3 Months	10.3	10.1	10.5	-0.4	-0.2
1 Year	11.2	10.5	17.3	-6.8	-6.1
3 Year	8.5	7.9	14.3	-6.5	-5.8
5 Year	0.7	0.1	8.4	-8.3	-7.7
10 Year	8.7	8.1	9.9	-1.8	-1.1
Since Inception	8.7	8.1	8.7	-0.7	-0.0

USD	Composite Gross (%)	Composite Net (%)	Benchmark (%)	Difference Net (%)	Difference Gross (%)
3 Months	8.4	8.2	8.6	-0.4	-0.2
1 Year	11.6	10.9	17.7	-6.8	-6.1
3 Year	15.5	14.8	21.7	-6.9	-6.2
5 Year	1.5	0.9	9.2	-8.3	-7.7
10 Year	7.5	6.8	8.6	-1.8	-1.1
Since Inception	7.5	6.8	7.5	-0.7	-0.0

EUR	Composite Gross (%)	Composite Net (%)	Benchmark (%)	Difference Net (%)	Difference Gross (%)
3 Months	8.3	8.1	8.5	-0.4	-0.2
1 Year	6.0	5.4	11.8	-6.4	-5.8
3 Year	8.7	8.1	14.5	-6.5	-5.8
5 Year	1.5	0.9	9.2	-8.3	-7.7
10 Year	6.9	6.3	8.0	-1.8	-1.1
Since Inception	8.8	8.2	8.9	-0.7	-0.0

CAD	Composite Gross (%)	Composite Net (%)	Benchmark (%)	Difference Net(%)	Difference Gross (%)
3 Months	10.5	10.3	10.7	-0.4	-0.2
1 Year	15.0	14.3	21.3	-7.0	-6.3
3 Year	16.0	15.3	22.2	-6.9	-6.2
5 Year	2.4	1.7	10.1	-8.4	-7.8
10 Year	7.9	7.2	9.0	-1.8	-1.1
Since Inception	9.4	8.7	9.4	-0.7	-0.0

AUD	Composite Gross (%)	Composite Net (%)	Benchmark (%)	Difference Net (%)	Difference Gross (%)
3 Months	7.2	7.0	7.4	-0.4	-0.2
1 Year	16.8	16.1	23.2	-7.1	-6.4
3 Year	14.4	13.7	20.5	-6.8	-6.1
5 Year	3.1	2.5	11.0	-8.5	-7.9
10 Year	8.1	7.4	9.2	-1.8	-1.1
Since Inception	9.6	8.9	9.6	-0.7	-0.0

Annualised periods ended 30 September 2025. 3 Month & 1 Year figures are not annualised.
Inception date: 31 December 2009
Figures may not sum due to rounding.
Benchmark is TOPIX.
Source: Revolution, Japan Exchange Group.
The Japan Growth composite is more concentrated than the TOPIX.

Discrete Performance

GBP	30/09/20-30/09/21	30/09/21-30/09/22	30/09/22-30/09/23	30/09/23-30/09/24	30/09/24-30/09/25
Composite Net (%)	10.6	-27.6	3.2	10.1	10.5
Benchmark (%)	15.6	-13.5	15.1	10.7	17.3

USD	30/09/20-30/09/21	30/09/21-30/09/22	30/09/22-30/09/23	30/09/23-30/09/24	30/09/24-30/09/25
Composite Net (%)	15.4	-40.1	12.8	21.0	10.9
Benchmark (%)	20.6	-28.4	25.9	21.6	17.7

EUR	30/09/20-30/09/21	30/09/21-30/09/22	30/09/22-30/09/23	30/09/23-30/09/24	30/09/24-30/09/25
Composite Net (%)	16.7	-29.1	4.4	14.8	5.4
Benchmark (%)	22.0	-15.3	16.5	15.4	11.8

CAD	30/09/20-30/09/21	30/09/21-30/09/22	30/09/22-30/09/23	30/09/23-30/09/24	30/09/24-30/09/25
Composite Net (%)	9.4	-35.0	11.0	20.9	14.3
Benchmark (%)	14.4	-22.4	23.9	21.5	21.3

AUD	30/09/20-30/09/21	30/09/21-30/09/22	30/09/22-30/09/23	30/09/23-30/09/24	30/09/24-30/09/25
Composite Net (%)	14.5	-32.7	12.4	12.5	16.1
Benchmark (%)	19.7	-19.6	25.4	13.1	23.2

Benchmark is TOPIX.
Source: Revolution, Japan Exchange Group.
The Japan Growth composite is more concentrated than the TOPIX.

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to 30 September 2025

Stock Name	Contribution (%)
SoftBank Group	2.8
SBI Holdings	0.7
Hitachi	0.4
Murata	0.4
Tokyo Electron	0.2
Rakuten	0.2
Kansai Paint	0.2
Money Forward Inc.	0.2
Sumitomo Metal Mining Co Ltd	0.2
Sony	0.2
Sysmex Corp	-0.6
Shift Inc	-0.5
MonotaRO Co	-0.4
DMG Mori	-0.4
LY Corp	-0.4
Unicharm	-0.3
Mitsubishi UFJ Fin Grp	-0.3
Recruit Holdings	-0.3
Keyence	-0.3
GMO Internet	-0.3

One Year to 30 September 2025

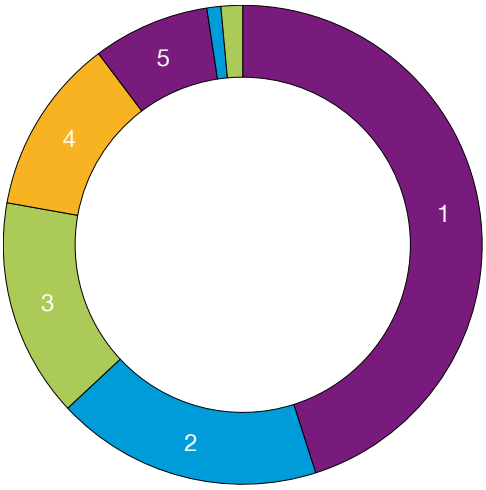
Stock Name	Contribution (%)
SoftBank Group	3.5
SBI Holdings	2.2
CyberAgent Inc	0.9
Sony	0.8
Daiichi Sankyo Company	0.5
Shin-Etsu Chemical	0.5
GMO Internet	0.4
Hitachi	0.4
Nintendo	0.3
Tokyo Electron	0.3
Unicharm	-1.4
Mitsubishi UFJ Fin Grp	-1.0
Sysmex Corp	-1.0
Keyence	-0.9
SMC	-0.7
Kose Corp.	-0.6
Yaskawa Electric	-0.6
Olympus	-0.5
Amvis Holdings	-0.5
Mitsubishi Heavy Industries	-0.5

Source: Revolution, Japan Exchange Group. Japan Growth composite relative to TOPIX.
The holdings identified do not represent all of the securities purchased, sold or held during the measurement period. Past performance does not guarantee future returns. A full list showing all holdings' contributions to the portfolio's performance and a description on how the attribution is calculated is available on request. Some stocks may not have been held for the whole period. All attribution figures are calculated gross of fees, relative to the index from stock level up, based on closing prices. As attribution is shown relative to the benchmark, not all stocks shown are held in the portfolio.

Top Ten Holdings

Stock Name	Description of Business	% of Portfolio
SoftBank Group	Telecom operator and technology investor	9.0
SBI Holdings	Online financial services	5.7
Sony	Consumer electronics, films and finance	5.2
Sumitomo Mitsui Trust	Japanese trust bank and investment manager	4.0
MS&AD Insurance	Japanese insurer	3.2
Keyence	Manufacturer of sensors	3.1
CyberAgent	Japanese internet advertising and content	3.1
Recruit Holdings	Property, lifestyle and HR media	3.0
Rakuten	Internet retail and financial services	2.9
Murata Manufacturing	Manufactures and sells ceramic applied electronic components	2.7
Total		41.8

Sector Weights



		%
1	Manufacturing	45.1
2	Transport And Communications	18.0
3	Finance & Insurance	14.8
4	Services	11.9
5	Commerce	7.9
6	Real Estate	0.9
7	Cash	1.5

Figures may not sum due to rounding.

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	2	Companies	1	Companies	None
Resolutions	19	Resolutions	1	Resolutions	None

Company Engagement

Engagement Type	Company
Governance	Amvis Holdings, Inc., Fanuc Corporation, Kao Corporation, Nakanishi Inc., Nidec Corporation, SBI Holdings, Inc., freee K.K.
Strategy	Kao Corporation

Company	Engagement Report
Amvis Holdings, Inc.	Objective: We spoke with Keiichi Shibahara, Founder and chief executive of Amvis, following the completion of an independent investigation into alleged improper medical fee claims. The meeting focused on the findings, the causes of reporting issues, and the company's governance response. Discussion: Amvis faced allegations in March 2025 of improper medical fee claims, triggering an investigation by an independent committee. Completed in August, the review found no wrongdoing and only minor registration errors, which were not considered material. Additional scrutiny from Amvis's auditor has delayed results but reporting is expected to return to normal in the later portion of this year. Shibahara-san noted challenges with the regulatory framework for nursing care is outdated. Regulation has not been updated for almost 20 years which may have contributed to registration errors, though meaningful reform is unlikely before 2027. Governance remains a concern. The chief executive officer (CEO) is stretched across the investigation, government and regulator interactions, and business expansion. Leadership stability has also been an issue: Amvis lacked a chief financial officer (CFO) for much of 2024, and the most recent appointee resigned in March 2025. While individual board members provided input, the board's overall role in oversight appeared limited. Outcome: The investigation confirmed no malpractice and only minor irregularities. Governance improvements are under way, though management capacity and board oversight remain areas to watch. The meeting reassured us of operational integrity but also highlighted the importance of monitoring leadership stability and regulatory engagement.
Kao Corporation	Objective: We met with Eriko Sakurai, independent outside director at Kao, as part of the company's outreach to investors. Our aim was to explain our voting approach, understand board dynamics following a contentious annual general meeting (AGM), and encourage greater ambition in Kao's strategic and financial targets. Discussion: We were pleased to hear that the board had received our letter sent after the AGM and appreciated the explanation of our voting rationale. Sakurai-san provided a helpful assessment of board composition and evolution. Since joining in 2022, she has championed the introduction of a formal chief financial officer (CFO) role and supported price increases in response to rising input costs. Her global perspective, informed by Western corporate practices, has been influential in improving financial discipline. Recent board changes include the appointment of Takaaki Nishii, credited with turning around Ajinomoto, to bolster financial oversight, and two new directors to strengthen brand positioning and internationalisation. Reflecting on the AGM and the activist Oasis' proposals, Sakurai-san explained that the board had interviewed most of Oasis' nominees but felt some overlap in skills and misalignment with Kao's needs. We pressed for greater ambition in Kao's midterm plan, noting that current return on invested capital (ROIC) targets are lower than in the past. Sakurai-san agreed that stronger targets would signal confidence but linked the caution to Japanese corporate conservatism. While the K27 plan will not be revised, she shared that efficiency and ROIC considerations are embedded in operational culture. On remuneration, we highlighted concerns over the high fixed component, which may understate ambition. Structural changes are unlikely before the next plan cycle. Outcome: The meeting strengthened our relationship with Kao's board and confirmed alignment on the need for greater ambition in strategic and financial goals. Although near-term change is constrained by the current midterm plan, our views were well received, laying the groundwork for future influence as the next plan and remuneration structures are developed.

Company	Engagement Report
SBI Holdings, Inc.	Objective: During a meeting with SBI Holdings' chief financial officer, Yasuo Nishikawa, we discussed succession planning. With chief executive Yoshitaka Kitao, now 73, the discussion centred on how leadership transition is being managed and how future generations are being prepared to take on meaningful roles. Discussion: Succession is actively debated within SBI, though no single candidate has been positioned as the obvious successor. While senior executives who have worked alongside Kitao-san remain part of the conversation, greater emphasis is on developing younger leaders who can sustain and evolve the company's philosophy over the long term. The holding company structure has widened opportunities, with subsidiaries sometimes led by managers in their 30s. Two recent board appointments below the age of 50 also highlight efforts to accelerate generational renewal. We were told Kitao-san spends considerable time mentoring younger colleagues, often giving weight to their perspectives over those of senior executives. Such openness challenges the traditional hierarchical culture in Japan and helps embed long-term thinking into company practice. Outcome: The meeting provided some additional detail on how succession was being considered at SBI. SBI's willingness to empower younger managers points to a governance culture that values adaptability and long-term stewardship.

Votes Cast in Favour

Companies	Voting Rationale
Mercari Inc, freee K.K.	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
freee K.K.	AGM 26/09/25	4	We opposed the equity incentive plan due to concerns over a significant package of the outside directors being in the form of restricted shares, which may lead to independent directors being conflicted.

Votes Abstained

We did not abstain on any resolutions during the period.

Votes Withheld

We did not withhold on any resolutions during the period.

New Purchases

Stock Name	Transaction Rationale
Shimano	Shimano is the world's leading manufacturer of bike gears and other bike components such as brakes. Following the Covid boom in cycling, demand for the company's products has been weak. However recent meetings with the company have encouraged us to think that the inventory cycle is being resolved and that the company is successfully adapting to e-bikes. The 30% of market capitalisation in net cash is an added attraction. We therefore decided that it was an opportune time to take a holding.

Complete Sales

Stock Name	Transaction Rationale
Nihon Kohden Corp	Nihon Kohden is a leading manufacturer of medical equipment, such as patient monitors, treatment equipment and diagnostic products. We originally took a holding in 2022, as the effects of Covid were dissipating, deriving our insight from the likelihood of margin improvement coming from a shift to in-house manufacturing and likely success of expansion into more profitable overseas markets. The improvement in margins has been frustrated by two factors, notably competition from Chinese makers and more recently tariffs, making their equipment - largely manufactured in Japan - less competitive. We believe the original thesis will take longer to play out, if indeed it has the opportunity to do so. We decided to sell in favour of other ideas, where the longer term edge is more clearly defined.

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