Japan Small Cap Quarterly Update

30 September 2025

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Potential for Profit and Loss

All investment strategies have the potential for profit and loss.

Stock Examples

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The commentary relates to the above mentioned strategy and not all stocks mentioned may be held in the portfolio.

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Product Overview

Japanese Smaller Companies is a regional equity strategy that aims to produce above average long-term performance through investment in Japanese equities with a market cap of between Y50-150bn in any economic sector. 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	63
Typical Number of Holdings	40-80
Active Share	97%*
Annual Turnover	18%

*Relative to MSCI Japan Small Cap Index. Source: Baillie Gifford & Co, MSCI.

Small caps outperformed export-oriented large caps, highlighting a tilt towards domestically geared growth

New positions were initiated in DMG Mori and Kasumigaseki Capital, funded by the complete sales of MatsukiyoCocokara, CellSource, and Technopro

The portfolio continues to deliver significantly higher growth than the benchmark, while its forward P/E premium is near decade lows

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

Market environment

Japanese small-caps advanced as monetary policy remained stable and the BoJ held interest rates at 0.50% with inflation above target. Positive earnings reported during the quarter, alongside ongoing retail inflows via the expanded NISA regime, supported risk appetite and capital-efficiency narratives across the small-cap universe. Despite the improving backdrop, the portfolio underperformed due to its large active overweight positions.

Performance

Infomart, **Lifenet Insurance**, and **Cosmos Pharmaceutical** were among the top detractors from relative performance.

Infomart, a B2B e-invoicing and foodservice ordering platform, reported modest earnings and guided to weaker second-half margins despite solid sales growth. The update reignited concerns about monetisation and margin durability, and an announced leadership change added to the overhang. We remain constructive on Infomart's role in digital invoicing and see scope for operating leverage as investment normalises.

Lifenet Insurance, a digital direct-to-consumer life insurer, detracted as guidance pointed to near-term margin pressure from slower growth in new policies and higher acquisition costs following stepped-up marketing. While premium growth continues and higher yields support investment income, these positives were not enough to offset near-term caution. We remain excited about Lifenet's potential in online distribution and see scope for operating leverage as cohorts mature and spending normalises.

Cosmos Pharmaceutical is a discount-led drugstore chain operating an everyday-low-price format across Japan. It has faced operational headwinds, including same-store sales declines, margin pressure from aggressive pricing and the deferral of store-opening plans. Despite this, the format's cost leadership and regional scale support resilient daily traffic, and the long-term store rollout opportunity remains intact.

Yonex, **Tsugami**, and **NIFCO** were among the top contributors to relative performance.

Yonex, a global sporting brand best known for badminton and tennis racquets, delivered a strong performance over the quarter as momentum from international tournaments and effective brand marketing continued to translate into robust sell-through. Investor confidence was underpinned by a record first quarter, with revenue up 28% year-on-year and operating profit nearly doubling. We remain encouraged by the combination of brand strength, product cadence and disciplined reinvestment.

Tsugami, a manufacturer of high-precision CNC machine tools, continued to execute well despite a mixed macro backdrop. Recent results showed record first-quarter revenue and profit, with strong contributions from China. Management also remained active on capital allocation with ongoing treasury share purchases, reinforcing confidence in earnings durability and balance-sheet strength.

NIFCO, a Japanese maker of plastic fasteners and components, benefited from improving profitability and higher capital returns. First-quarter operating profit and EPS rose on cost control, and the board approved a ¥5bn (1.5m shares) buyback. Beyond autos, moves into EV safety and industrial solutions extend its growth runway.

Notable transactions

During the period, we acquired two companies, DMG Mori and Kasumigaseki Capital.

DMG Mori is a leading machine tools company. It designs advanced CNC machines and delivers integrated, automated production lines, positioning it to benefit from the structural shift toward factory automation and rising defence spending in Japan and Europe.

Kasumigaseki Capital (KC) is an asset-light real estate developer that originates and scales niche, operationally intensive assets across logistics, hospitality, and care facilities in Japan and select overseas markets. The firm is positioned to benefit from the modernisation of logistics infrastructure and the expansion of tourism.

These were funded by the complete sales of MatsukiyoCocokara, CellSource and Technopro.

Market Outlook

The portfolio companies continue to deliver significantly higher growth than that of the benchmark, while the valuation premium to the benchmark (using forward price-to-earnings) is at near its lowest level in a decade. We are excited by many of your holdings and the investment universe, and we believe our strengthened processes can help us deliver the returns that our shareholders expect.

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	6.5	6.3	11.4	-5.1	-4.9
1 Year	8.2	7.4	19.9	-12.5	-11.7
3 Year	-3.6	-4.3	12.3	-16.6	-15.9
5 Year	-8.6	-9.3	6.5	-15.8	-15.1
10 Year	6.1	5.3	9.5	-4.2	-3.5
Since Inception	5.4	4.6	3.8	+0.8	+1.6

USD	Composite Gross (%)	Composite Net (%)	Benchmark (%)	Difference Net (%)	Difference Gross (%)
3 Months	4.6	4.4	9.4	-5.0	-4.8
1 Year	8.6	7.8	20.3	-12.5	-11.7
3 Year	2.6	1.9	19.5	-17.6	-16.9
5 Year	-7.9	-8.6	7.4	-15.9	-15.2
10 Year	4.8	4.0	8.2	-4.2	-3.4
Since Inception	4.8	4.1	3.3	+0.8	+1.6

EUR	Composite Gross (%)	Composite Net (%)	Benchmark (%)	Difference Net (%)	Difference Gross (%)
3 Months	4.5	4.3	9.3	-5.0	-4.8
1 Year	3.2	2.4	14.3	-11.9	-11.1
3 Year	-3.4	-4.1	12.5	-16.6	-15.9
5 Year	-7.9	-8.6	7.3	-15.9	-15.2
10 Year	4.3	3.5	7.7	-4.2	-3.4
Since Inception	4.8	4.0	3.2	+0.8	+1.6

CAD	Composite Gross (%)	Composite Net (%)	Benchmark (%)	Difference Net(%)	Difference Gross (%)
3 Months	6.7	6.5	11.6	-5.1	-4.9
1 Year	11.9	11.0	23.9	-12.9	-12.1
3 Year	3.1	2.3	20.0	-17.7	-16.9
5 Year	-7.1	-7.8	8.2	-16.1	-15.4
10 Year	5.2	4.4	8.6	-4.2	-3.4
Since Inception	5.4	4.6	3.8	+0.8	+1.6

AUD	Composite Gross (%)	Composite Net (%)	Benchmark (%)	Difference Net (%)	Difference Gross (%)
3 Months	3.5	3.3	8.2	-4.9	-4.7
1 Year	13.7	12.8	25.9	-13.1	-12.3
3 Year	1.6	0.8	18.3	-17.5	-16.7
5 Year	-6.4	-7.1	9.1	-16.2	-15.5
10 Year	5.4	4.6	8.8	-4.2	-3.4
Since Inception	5.4	4.6	3.8	+0.8	+1.6

Annualised periods ended 30 September 2025. 3 Month & 1 Year figures are not annualised.
Inception date: 31 December 1989
Figures may not sum due to rounding.
Benchmark is MSCI Japan Small Cap Index.
Source: FE, Revolution, MSCI.
The Japan Small Cap composite is more concentrated than the MSCI Japan Small Cap Index.

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 (%)	1.0	-30.7	-11.9	-7.4	7.4
Benchmark (%)	10.1	-12.1	8.5	8.9	19.9

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 (%)	5.3	-42.6	-3.7	1.8	7.8
Benchmark (%)	14.8	-27.3	18.6	19.7	20.3

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 (%)	6.6	-32.1	-10.9	-3.4	2.4
Benchmark (%)	16.2	-13.9	9.7	13.6	14.3

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 (%)	-0.1	-37.8	-5.2	1.7	11.0
Benchmark (%)	8.9	-21.1	16.7	19.6	23.9

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 (%)	4.5	-35.5	-4.0	-5.3	12.8
Benchmark (%)	14.0	-18.3	18.1	11.4	25.9

Benchmark is MSCI Japan Small Cap Index.
Source: FE, Revolution, MSCI.
The Japan Small Cap composite is more concentrated than the MSCI Japan Small Cap Index.

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to 30 September 2025

Stock Name	Contribution (%)
Yonex	0.5
Tsugami Corp	0.5
Nifco Inc	0.4
Megachips Corp	0.4
Kitz Corp	0.3
FONTZ HOLDINGS INC	0.2
GA Technologies	0.2
Kawasaki Heavy Industries	0.2
Nittoku Co Ltd	0.2
Anicom Holdings Inc	0.2
Infomart Corp	-0.8
Lifenet Insurance	-0.6
Cosmos Pharmaceutical	-0.4
Gift Hdgs	-0.4
Appier Group	-0.4
Cybozu Inc	-0.4
I-Ne Co Ltd	-0.3
Toyo Tanso	-0.3
Inforich Inc	-0.3
Harmonic Drive Systems	-0.3

One Year to 30 September 2025

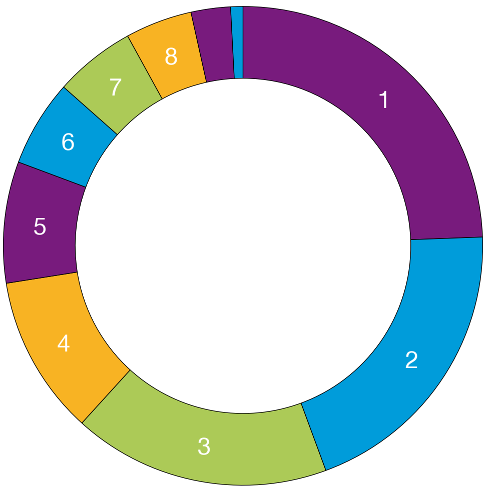
Stock Name	Contribution (%)
Yonex	1.2
Wealthnavi Inc	1.1
GA Technologies	1.0
Tsugami Corp	0.8
Cybozu Inc	0.7
Technopro Holdings	0.5
Katitas	0.5
Kitz Corp	0.3
Sumitomo Forestry	0.3
SWCC Showa Holdings Co	0.3
Peptidream	-1.2
Inforich Inc	-1.0
Nakanishi	-1.0
Harmonic Drive Systems	-0.8
Toyo Tanso	-0.8
Appier Group	-0.8
Avex Group Holdings	-0.7
Raksul Inc	-0.7
JEOL	-0.7
I-Ne Co Ltd	-0.6

Source: Revolution, MSCI. Japan Small Cap composite relative to MSCI Japan Small Cap Index.
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
GA Technologies	Real Estate Business Company	4.0
Yonex	Sporting goods	3.9
Tsugami	Manufacturer of automated machine tools	3.6
KATITAS	Real estate services	3.1
Appier Group	Technology company offering artificial intelligence enabled software tools for customer acquisition and retention	2.9
JEOL	Manufacturer of scientific equipment	2.6
Cosmos Pharmaceutical	Drug store chain	2.6
Lifenet Insurance	Provides a range of life insurance products and services.	2.5
Nifco	Value-added plastic car parts	2.5
Kohoku Kogyo	Leading company of lead terminals for aluminum electrolytic capacitors and optical components/device	2.4
Total		30.0

Sector Weights



		%
1	Industrials	24.4
2	Information Technology	20.0
3	Consumer Discretionary	17.4
4	Communication Services	10.8
5	Financials	8.2
6	Health Care	5.9
7	Consumer Staples	5.5
8	Real Estate	4.5
9	Materials	2.7
10	Cash	0.8

Figures may not sum due to rounding.

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	6	Companies	None	Companies	None
Resolutions	45	Resolutions	None	Resolutions	None

Company Engagement

Engagement Type	Company
Social	Asahi Intecc Co., Ltd.
Governance	Asahi Intecc Co., Ltd., JEOL Ltd., Nakanishi Inc., Nippon Ceramic Co., Ltd., Seria Co., Ltd., Toyo Tanso Co., Ltd., istyle Inc.
Strategy	Seria Co., Ltd.

Company	Engagement Report
Asahi Intecc Co., Ltd.	Objective: During a meeting with the chief financial officer (CFO) of Asahi Intecc, we wanted to learn more about recent governance developments following the appointment of a new chief executive officer, as well as the company's approach to human capital management and the steps being taken to strengthen diversity within leadership roles. Discussion: The conversation began with reflections on the change in leadership, in which the new chief executive officer (CEO), son of the former CEO, has assumed the role. The CFO outlined how decision-making dynamics are evolving under the new CEO's tenure and emphasised the board's continued involvement in ensuring effective governance. Human capital management has been identified by Asahi Intecc as a material factor for its long-term success. A key area of focus is gender diversity among management. The company has set a target of increasing female representation in managerial positions to 30 per cent. Encouragingly, this target has already been surpassed in some overseas offices. However, in Japan, women currently hold only 10 per cent of management positions, highlighting both the challenge and the opportunity for progress. The CFO acknowledged the cultural headwinds in the region where Asahi Intecc is headquartered, noting that many female employees are hesitant to pursue management roles due to broader social expectations. Nonetheless, the company has introduced initiatives to provide better pathways for female employees, including mentoring and supportive policies to encourage career development. These programmes are designed to shift perceptions over time and help talented individuals feel confident in stepping into leadership roles. Outcome: While challenges remain in advancing female representation in Japan, the company's openness and initiatives signal a positive direction. It was useful to understand more about Asahi Intecc's approach to assessing and addressing human capital challenges.

Votes Cast in Favour

Companies	Voting Rationale
Asahi Intecc Co Ltd, Cosmos Pharmaceutical, I-ne, Istyle, Sho-Bond Holdings Ltd, Weathernews Inc	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

We did not vote against any resolutions during the period.

Votes Abstained

We did not abstain on any resolutions during the period.

Votes Withheld

We did not withhold on any resolutions during the period.

Votes Not Cast

Companies	Voting Rationale
Technopro Holdings	We did not vote due to selling out of the stock

New Purchases

Stock Name	Transaction Rationale
DMG Mori	DMG Mori is a leading machine tools company, formed through the 2013 merger of DMG Seiki in Japan, and Gildermeister AG in Germany. Opportunity: Automation is a powerful structural growth driver which DMG is exposed to. While it serves a number of cyclical challenged sectors currently, the increasing exposure to the Defence industry is noteworthy as Japan and Europe ramp up its defence spending. Edge: The combination of technical know-how (for example, in 5-axis CNC machines), a direct sales/support network, and an integrated offering of automated production lines provides a competitive edge (competitors tend to focus on selling machines rather than the production line). The complementary skills of its German and Japanese operations enable these advantages. Alignment: The company's President Dr. Mori is a key figure, with a succession plan expected by 2028. In the meantime, the company has set clear targets for 2030. Sustainability: DMG Mori's products enable client efficiency, and the company maintains decent internal practices, including diverse management and SBTi-approved targets. Scalability: The company has operational leverage, with capacity to grow into following the conclusion of a heavy capex phase. Its diverse geographic footprint and customer base provide resilience through cycles. Valuation: At 1x forward EV/Sales, we think the stock is undervalued. Alternatively, if DMG achieves its target of Y800bn of revenues at 15% operating margin, net earnings will be in the region of ~Y80bn, which puts the current share price on 6x 2030 earnings - implying decent upside.The hypothesis for investing now is that DMG Mori's current operating margin significantly understates its true competitiveness (hinted at by the high gross margin). As cyclical tailwind turns (or if Defence spending ramps up), the operating leverage inherent to the business model will come through, and there is scope for DMG to achieve strong top line growth and a doubling of operating margin in the next 5 years - we initiated a holding as we believe the current valuation underestimates this possibility.

Kasumigaseki Capital Co.,Ltd.	Kasumigaseki Capital (KC) is an innovative real estate development company with an unusual asset-light business model. Its focus areas include cold chain logistic warehouses, group-stay hotels, premium hospices, and several overseas opportunities. Developmental projects are sold after the planning stage to ensure high asset turnover, and from then on, KC derives fees linked to project progress and eventually property management fees. Opportunity - KC has a track record of identifying overlooked real estate opportunities. Each of its major focus areas enjoys structural tailwinds. For example, demand for cold storage warehouses in Japan are growing but supply is declining due to ageing facilities (more than half of Japan's cold storage is >20 years old) and an upcoming change in refrigerant regulations. In hotels, tourism in Japan is growing quickly, and there is a structural under supply of multi-tenant (>3) rooms - KC focuses on group-stay rooms. In both cases, KC has identified significant inefficiencies to how existing facilities are run and developed innovative concepts to address these opportunities. Edge - While KC has a lot of real estate peers, it stands out for 1) its asset-light business model; and 2) the innovations within its verticals. We believe that the combination of skill sets needed (real estate expertise, finance know-how, vertical specific innovations), and the growing network of participating investors (for its development and completed projects) together form strong barriers to entry. Alignment - the founder (Chairman) and CEO own 24% and 8% respectively. The track record shows ambition and strategic nimbleness, and the incentive structure for other senior employees are aligned with the target to 5x earnings in the next 4 years. Scalability - The asset light business model is unusual in the industry. As the business matures, more of its revenues will be of a recurring nature (e.g. property management fee), which underpins cash flow generation and ability to reinvest. We believe the management has addressed previous bottlenecks effectively, such as land procurement, project development, establishing network of investors - and it is well placed to continue its high growth trajectory. Sustainability - While there is no explicit focus on sustainability (and indeed disclosure can be better), each of its main verticals help address key societal challenges - from labour shortage (hotels and warehouses with high automation) to environmental concerns (solar power at hotels, natural refrigerants in cold chain storage) and ageing society (fresh hospice offering in a PR-challenged industry). KC targets net income of Y50B by FY29/8, from a base of ~Y10B in FY25/8, a CAGR of ~50%, while achieving excellent returns. These numbers mark KC as an outlier. While KC's near-term PE multiple is higher than its most direct peers (with PE typically in the high single digit or low 10s at most), we believe the premium is more than justified - indeed, its trailing PE will fall to ~12x next year should it remain on track in the next 12 months.

Complete Sales

Stock Name	Transaction Rationale
CellSource Co., Ltd.	Cellsource is a biotech company focusing on regenerative medicine. This one has not worked out. We gave it time after Cellsource appointed a new CEO (ex-Itochu) in 2024 to help professionalise the company, and return Cellsource to a growth track. The continued reshuffling of the management at the top (with a co-founder returning to the CEO role recently), along with some unhelpful regulatory changes, suggest a turnaround may be some time away. We decide to exit this small position on the basis of poor Scalability and questionable Alignment.
MatsukiyoCocokara & Co	MatuskiyoCocokara is a leading drugstore chain in Japan. While we admire the quality of the operations, we feel that 1) the Opportunity for high growth from here is somewhat muted, with the benefits of the ageing society in Japan offset by the crowded competitive environment; 2) that the scope for further profitability improvement is somewhat constrained given the starting point; and 3) the merits of the company are fairly well appreciated by the market with forward PE at ~20x. In addition, we already hold some broadly similar exposures within the portfolio. As a result, we decided to exit this holding to deploy capital to opportunities with greater upside.
Technopro Holdings	We sold Technopro Holdings because the company will be privatised soon. As the share price is very close to the offer price and the privatisation now appears highly likely, we see little upside from continuing to own the shares. We used the proceeds to make additions to the existing holdings with larger upside potential.

MSCI