

RNS Announcement

The Baillie Gifford Japan Trust PLC

Legal Entity Identifier: 54930037AGTKN765Y741

Results for the year to 31 August 2023

Regulated Information Classification: Additional regulated information required to be disclosed under the applicable laws and regulations.

Over the year to 31 August 2023, The Baillie Gifford Japan Trust PLC's net asset value total return per share was (5.4%) compared to the 6.7% total return in the TOPIX index (in sterling terms). In this period the Company's share price total return was (4.0%).

Over the five years to the end of August 2023, the compound NAV total return was (1.2%) and over ten years 9.3% compared to the TOPIX return of 3.5% and 8.1% respectively.

- A final dividend of 10.0p per ordinary share will be put to shareholders for approval at the Annual General Meeting. This represents an 11% increase on the 9.0p paid in relation to the prior year.
- As was the case last year, the Managers' biases towards higher growth and smaller companies have both been unhelpful as the place to be has been in more cyclical areas and this is not a natural hunting ground for growth investors.
- During the period nine new investments were made. In a number of these cases, the Manager took advantage of the derating of share prices in smaller growth companies. These included Vector (public relations company), SWCC Showa (high voltage cables), Nihon M&A (mergers and acquisitions in Japan) and Lifenet Insurance (online life insurance). Seven positions were sold during the period while gearing remained at approximately 17%.
- The most significant development of the year from an investment perspective has been the leap forward in artificial intelligence large language models which the Manager expects to provide opportunities for many of the companies within the portfolio including, but not limited to, Softbank, Rakuten, CyberAgent and GMO Internet.
- The Managers believe that the opportunities for growth investing in Japan are the greatest since the Global Financial Crisis.

For a definition of terms see Glossary of Terms and Alternative Performance Measures at the end of this announcement.

Source: Refinitiv/Baillie Gifford. See disclaimer at the end of this announcement.

The Baillie Gifford Japan Trust PLC aims to achieve long term capital growth principally through investment in medium to smaller sized Japanese companies which are believed to have above average prospects for growth. At 31 August 2023, the Company had total assets of £864.7m (before deduction of bank loans of £131.7m).

The Company is managed by Baillie Gifford, an Edinburgh based fund management group with around £202.3bn under management and advice as at 30 October 2023.

Past performance is not a guide to future performance. The value of an investment and any income from it is not guaranteed and may go down as well as up and investors may not get back the amount invested. This is because the share price is determined by the changing conditions in the relevant stock markets in which the Company invests and by the supply and demand for the Company's shares.

You should view your investment as long term. You can find up to date performance information about The Baillie Gifford Japan Trust PLC on the Company website at japantrustplc.co.uk.

See disclaimer at the end of this announcement.

Approved by the Board on 1 November 2023

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Chairman's Statement

Introduction

Last year, I reported that there was a great deal of uncertainty facing investors including the global prospects for inflation, interest rates and bond yields but also the impact of other factors such as Covid-19 restrictions. These restrictions were lifted in Japan in the Autumn of 2022 and the Board visited Japan with the Managers in May 2023 – the first Board visit since 2019. I am pleased to report a most insightful trip where the Board had the opportunity to observe the Managers and their process in action and to meet with some of the most exciting companies held within the portfolio as well as several potential future investments.

Performance

In the year to 31 August 2023, the net asset value ('NAV') total return was (5.4%). As market sentiment remained poor, the Company's shares continued to trade at a discount to NAV, leading to a share price total return of (4.0%). The benchmark total return was 6.7% over the same period.

The Company's objective is to achieve long-term capital growth, and the NAV returns remain ahead of the benchmark on a 10 year time horizon.

	5 years	10 years
Compound annual returns to end August	(%)	(%)
Net asset value total return*	(1.2)	9.3
Share price total return*	(3.0)	8.7

TOPIX total return* (in sterling terms) †	3.5	8.1
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In June 2023, the Board conducted a thorough analysis with the Managers of the Company's performance over the previous five years, looking at both process and outcomes. The Company has an explicit growth-focused investment strategy. The vast majority of the Company's assets are invested in companies with higher than average growth prospects. The Board is strongly supportive of this investment strategy; the Japanese equity market is large and rich in opportunity but the Japanese economy itself grows slowly due to structural factors. As such, the Board believes companies able to demonstrate idiosyncratic growth should command a premium valuation and outperform over time. The Manager invests on a bottom-up basis, focusing on identifying the most attractive growth companies and largely ignoring macro factors. However, investors should note that there are certain market environments which do not favour growth investing and in which the Company may be more likely to underperform both its benchmark and more value-focused peers. While it is not possible to be prescriptive on this issue, an environment of rising inflation and interest rates, such as we have seen over the past two years, tends to be unfavourable for growth stocks' relative performance.

Gearing and Borrowing

The Board believes that borrowing will enhance returns to investors over the long-term. Net gearing fell very slightly from 17.5% to 17.0% over the year to 31 August 2023. The Board is pleased to announce that in August 2023 the Company entered into a new two year floating rate loan facility with The Bank of New York Mellon for ¥15 billion, being an increase of ¥2.8 billion on the SMBC loan that was repaid in August 2023. The new facility was used to repay the SMBC facility and Mizuho Bank revolving credit facility with the balance being available to the Managers to deploy.

Dividend

The Board is recommending a dividend of 10p per share, an increase of 11.1% on last year's 9p. This will be put to shareholders for approval at the Annual General Meeting to be held on 12 December 2023 and, if approved, will be paid on 20 December to shareholders on the register at close of business on 17 November 2023. A dividend reinvestment plan ('DRIP') is available to shareholders who would prefer to invest their dividends in the shares of the Company. For those shareholders electing to receive the DRIP, the last date for receipt of election is 29 November 2023.

Share Capital and Discount Management

Over the course of the year, the share price moved from a 8.1% discount to NAV to a 6.7% discount to NAV. During this period, the Company bought back 851,845 shares at a cost of approximately £6.4 million. These shares are held in Treasury and are available to be reissued, at a premium, when market conditions allow.

Your Board believes it is important that the Company retains the power to buy back equity during the year and so, at the Annual General Meeting, is seeking to renew this facility. Further details of the buy-back facility can be found on page 53 of the Annual Report and Financial Statements.

The Company also has authority to issue new shares and to reissue any shares held in Treasury for cash on a non pre-emptive basis. Shares are issued/reissued only at a premium to net asset value, thereby enhancing net asset value per share for existing shareholders. The Directors are, once again, seeking 10% share issuance authority at the Annual General Meeting. This authority would expire at the conclusion of the Annual General Meeting in 2024.

Regulatory Update

The FCA also introduced a new set of rules labelled as 'Consumer Duty'. Investment Trusts, like the Company, are not directly impacted by this but Baillie Gifford, as the Company's Manager is. The Duty raises the standard of care that FCA regulated firms, like Baillie Gifford, are expected

to provide to retail consumers and includes a number of obligations that need to be met. One of these obligations is to undertake an Assessment of Value on the 'products' managed. The relevant report on the Company has concluded that it does provide value, meaning that distributors will be able to undertake their assessments and continue to make shares in the Company available to current and potential shareholders.

Annual General Meeting

The Company's Annual General Meeting has been scheduled to take place on 12 December 2023 at Baillie Gifford's offices in Edinburgh. The Board encourages all shareholders to attend in person but also to exercise their votes by completing and submitting a form of proxy. We encourage shareholders to monitor the Company's website at japantrustplc.co.uk where any updates will be posted and market announcements will be made, as appropriate. Should shareholders have questions for the Board or the Managers or any queries as to how to vote, they are welcome to submit these by email to trustenquiries@bailliegifford.com or call 0800 917 2112.

Information on the resolutions can be found on pages 97 and 98 of the Annual Report and Financial Statements. The Directors consider that all resolutions to be put to shareholders are in their and the Company's best interests as a whole and recommend that shareholders vote in their favour.

In particular, shareholders have the right to vote annually on whether the Company should continue in business and will have the opportunity to do so again this year. Last year, the Company again received support for its continuation with 99.99% of votes cast in favour. Your Directors believe there are attractive opportunities in selected, well-run Japanese companies benefiting the long-term favourable outlook for the Japan Trust. To that end, my fellow Directors and I intend, where possible, to vote our own shareholdings in favour of the resolution and hope that all shareholders will feel disposed to do likewise.

Board

During the year the Board undertook a recruitment process seeking to appoint an additional independent non-executive director. The Board was pleased to announce the appointment of Patricia Lewis with effect from 1 August 2023. Patricia will stand for election at the upcoming Annual General Meeting.

The Board is cognisant of good corporate governance practice and as such I should also like to mention my intention to step down from the Board at the Annual General Meeting to be held in 2025. This would mean that I serve 10 years in total on the Board with just over three of those years as Chairman, a role to which I was appointed following the untimely death of Keith Falconer.

Outlook

The portfolio contains many attractive growth companies. Your Board is confident in the long-term, and hopeful in the shorter-term, regarding the prospects for the Company.

David Kidd
Chairman
1 November 2023

* Alternative Performance Measure – see Glossary of Terms and Alternative Performance Measures on at the end of this announcement.

† The benchmark is the TOPIX total return (in sterling terms).

Source: Refinitiv/Baillie Gifford and relevant underlying index providers. See disclaimer at the end of this announcement.

Past performance is not a guide to future performance.

Managers' Review

Whilst there remain various global challenges, including war and other geopolitical tensions, high inflation levels and climate challenges the most significant development of the year from an investment perspective has been the leap forward in artificial intelligence ('AI') large language models, as typified by ChatGPT. The investment landscape remains complex and at times contradictory but technological progress and the investment opportunities that flow from it remain a constant.

The last 12 months have certainly not been a vintage year for the Company with a NAV total return of (5.4%) compared with 6.7% for the TOPIX index, in sterling terms. Over 5 years the cumulative NAV total return was (5.8%) and over 10 years 143.5%. This compares to increases in the TOPIX index of 18.5% over 5 years and 116.9% over 10 years. To be behind the index to a material extent over a 5 year horizon is disappointing to us, and doubtless to shareholders.

As was the case last year, our biases towards higher growth and smaller companies have both been unhelpful to us. While not our natural hunting ground as growth investors the place to be has been in more cyclical areas. Since there was a positive return in Yen, being geared made a small positive contribution to performance (+0.9ppt). Despite the unsatisfactory overall result there is little to say at the stock level. Two companies subtracted more than 1.0ppt from performance, CyberAgent and Misumi, but the issue was more that we missed out on many of the successful names.

The low returns over the past 5 years merit discussion. Has something gone wrong with our process? Where do we get conviction on a forward-looking basis? When will these businesses become better appreciated?

The first point to make is that this 5 year period can be split into two halves. In the period from August 2018 to August 2021 the performance was positive in both absolute and relative terms. However, this good 3 year period has been followed by 2 challenging years. As a reminder, your Company's portfolio is very different to the underlying market. The Trust holds no investments in around half of the 33 industries included in the Company's benchmark index, TOPIX. Some of the top performing sectors over the past twelve months include iron and steel, banks, marine transportation and construction – areas where we have little exposure. If these stocks go up we will underperform. But our view remains that these areas offer little fundamental opportunity for growth investors. Another measure of how different your Company's portfolio is to the TOPIX is the percentage of the portfolio with founder shareholders. For The Baillie Gifford Japan Trust, 29% of the portfolio has a founder-owner in charge compared with 8% for the TOPIX as a whole (source: MSCI). In the long run we believe that having a founder at the helm better aligns the interests of management and shareholders.

Tentatively, it may be that the investment environment created by the pandemic suited the types of businesses that we favour while the investment environment created by the exit from that environment suited more cyclical businesses. The net result of this is that performance over the 5 years is behind. However, inevitably, we are trying to analyse a story containing large swings in opposing directions that has not yet completed. The conclusions that we can draw from this period will only be secure when more time has passed, and we know what the ultimate results are.

The fundamentals of our process remain the same. Our team remains intact with no changes to the senior investors over the past 5 years and our approach to selecting stocks is substantially unchanged. We continue our steady fundamental research-based approach of trying to identify companies with good growth prospects at a similar tempo to the past.

We can look at the stocks in the portfolio with the worst contributions to performance over the past 5 years. These are CyberAgent, Rakuten, Outsourcing, Sato Holdings, and GA Technologies. They had a negative attribution ranging from (2.1%) to (1.1%) respectively. The first obvious question is, has something gone wrong with these businesses? For the most recent 5 full years available these companies grew their sales by 14% p.a., 15% p.a., 25% p.a., 5% p.a., and 64% p.a. respectively. If we didn't know the share price return, I would certainly be more than happy with the average underlying growth. And as a reminder, these are the worst contributors to performance. A lot of the challenge has come from profit growth not keeping up with sales. For example, CyberAgent had a very successful hit in its gaming business that it has yet to be able to better. Meanwhile, Rakuten has been rolling out a new mobile network in Japan that has proven more costly than we expected and has yet to reach profitability. Looking forwards we expect CyberAgent to be able to achieve new peak profits and think that Rakuten is past the worst of its investment phase and that ultimately its mobile business will be successful.

Looking forward we expect continuing developments in AI to provide opportunities for many of the companies in the portfolio. AI can be thought of as comprising multiple layers – chips, datacentres, models, and applications for example. Currently much excitement has been about the opportunity in the first layer, chips, but as time progresses we expect a broader view to be taken about where the opportunities are.

Starting with the major portfolio holdings, SoftBank owns nearly 90% of recently re-listed ARM, which has a near-monopoly in mobile phone chip design, as well as many early-stage AI companies listed in the Vision Fund. Mr Son is looking towards a future not just of artificial general intelligence (where AI roughly operates at a human level across a wide variety of domains) but to a future of artificial super-intelligence (where AI is multiples more capable than humans). GMO Internet has a large exposure to internet infrastructure and datacentres in Japan. Rakuten has proprietary data across its ecosystem which provides the foundation for creating successful applications for AI. CyberAgent has developed the world's first large language model built with the Japanese language as the base. Each of these are top 10 holdings in the Company. Additionally, we expect opportunities in many of the smaller holdings. For example, Z Holdings expect to be able to achieve huge improvements in software engineer productivity as humans work alongside AI as well as to be able to achieve big cost reductions in dealing with customer queries. Bengo4.com has already developed a prototype 'AI lawyer'.

It is always difficult for us to assess when businesses will become better appreciated which is why we try to focus more on the underlying progress of sales and profits in the expectation that, over the long term, these will be reflected in share prices. Like you, we would like to have seen significantly better share price results over the past couple of years but, in general, we see solid ongoing progress at individual businesses and take significant comfort from that.

Meanwhile, we have continued to try to improve the portfolio. During the period we bought 9 new holdings and sold 7 holdings. Recently we have been taking advantage of the high level of pain being felt in smaller growth companies share prices to initiate new holdings in Vector (public relations agency), SWCC Showa (high voltage cables), Nihon M&A (mergers and acquisitions in Japan) and Lifenet Insurance (online life insurance). We also took a new holding in M3 (medical website) after the shares fell by more than 60% from the price that we previously sold the shares at in late 2020 due to valuation concerns. Similar to the case of Pigeon last year, the very large share price moves have exceeded the changes in the fundamentals, which we believe has created opportunity for long-term investors. The sales spanned a variety of reasons, from considering the shares to be fully valued due to cyclical increase in resource prices (Inpex, Toyota Tsusho), or becoming doubtful on the long-term prospects being realised (Shimano, Makita, Tsubaki Nakashima, Lifull). As is typical, turnover remained low at 8.8% meaning that 91.2% of the portfolio was unchanged year-on-year. Net gearing ended the year at 17%, reflecting our belief in the significant opportunities available.

As Sir John Templeton put it many years ago "outperforming the majority of investors requires doing what they are not doing". We are sticking to an approach that has been effective over the decades of trying to buy businesses with attractive long-term growth prospects, not fiddling with the portfolio, and letting those businesses generate the returns over time. This process has never worked every year and the past 2 years have been a particularly challenging time. However, we believe that the opportunities for growth investing in Japan are the greatest since the Global Financial Crisis and ask for shareholders continued support.

Baillie Gifford
1 November 2023

For a definition of terms see Glossary of Terms and Alternative Performance Measures at the end of this announcement.

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Relative Contribution

Top Ten Relative Stock Contributors Year to 31 August 2023

Name	Portfolio (average weight) %	Index (average weight) %	Relative Contribution %
DMG Mori	1.8	0.0	0.4
Itochu	2.8	1.0	0.4
Olympus	0.0	0.5	0.3
Chugoku Marine Paints	0.8	0.0	0.2
Mercari	1.1	0.0	0.2
Sumitomo Mitsui Trust Bank	3.4	0.3	0.2
MS&AD Insurance	2.8	0.3	0.2
Nifco	1.4	0.0	0.2
M3	0.1	0.2	0.1
DENSO	2.1	0.6	0.1

Bottom Ten Relative Stock Contributors Year to 31 August 2023

Name	Portfolio (average weight) %	Index (average weight) %	Relative Contribution %
CyberAgent	2.4	0.1	(1.3)
Misumi	2.5	0.2	(1.1)
GMO Internet	3.1	0.0	(0.9)
Rakuten	2.4	0.1	(0.8)
MonotaRO	1.4	0.1	(0.7)
FANUC	3.3	0.7	(0.7)
Oisix	1.4	0.0	(0.5)
Systemex	2.1	0.3	(0.5)
GA Technologies	1.2	0.0	(0.5)
mixi	2.7	0.0	(0.4)

Top Ten Relative Stock Contributors 5 years to 31 August 2023

Name	Portfolio (average weight) %	Index (average weight) %	Relative Contribution %
M3	0.8	0.3	1.4
Itochu	2.4	0.8	1.3
SoftBank Group	5.7	1.7	1.2
Pan Pacific International	0.6	0.2	1.0
DENSO	1.8	0.5	0.7
MS&AD Insurance	1.4	0.3	0.7
SMC	1.3	0.7	0.7

Bottom Ten Relative Stock Contributors 5 years to 31 August 2023

Name	Portfolio (average weight) %	Index (average weight) %	Relative Contribution %
CyberAgent	2.5	0.1	(2.1)
Rakuten	3.3	0.2	(1.8)
Outsourcing	1.6	0.0	(1.4)
Sato Holdings	1.7	0.0	(1.3)
GA Technologies	0.6	0.0	(1.1)
Toyota Motor	0.0	3.6	(1.1)
Systemex	2.5	0.3	(1.0)

Inpex	1.7	0.2	0.6	Misumi	2.5	0.2	(1.0)
Advantest	0.2	0.2	0.6	Calbee	1.6	0.1	(0.9)
JAFCO	0.5	0.0	0.5	Healios K.K.	0.2	0.0	(0.8)

Source: Revolution and relevant underlying index providers. Baillie Gifford Japan Trust relative to TOPIX total return, in sterling terms.

See disclaimer at the end of this announcement.

Investment Portfolio by Growth Category

As at 31 August 2023

Secular Growth ¹	% of total investments	Growth Stalwarts ²	% of total investments	Special Situations ³	% of total investments	Cyclical Growth ⁴	% of total investments
SBI Holdings	3.5	Calbee	2.9	SoftBank Group	5.3	Sumitomo Mitsui Trust Bank	3.7
Rakuten	3.2	Shiseido	2.4	Sony	2.9	Bridgestone	2.2
FANUC	3.0	Unicharm	2.2	mixi	2.5	DMG Mori	2.2
GMO Internet	2.7	Nintendo	2.1	MS&AD Insurance	2.2	Itochu	2.2
Kubota	2.7	Pola Orbis	1.8	Tokyo Tatemono	1.3	Sumitomo Metal Mining	2.0
CyberAgent	2.1	Sugi	0.8	Colopl	1.3	Rohm	1.8
Recruit Holdings	2.0	Kao	0.8	Olympus	0.7	Nifco	1.6
Misumi	2.0	Park24	0.6			DENSO	1.6
Sato	1.9	Sawai Pharmaceutical	0.3			Murata Manufacturing	1.5
Systemx	1.8					Chugoku Marine Paints	1.0
Oisix	1.6					Outsourcing	0.9
GA Technologies	1.3					Iida Group Holdings	0.7
Nidec	1.3					SWCC Showa	0.5
TKP	1.2					Shima Seiki	0.5
Topcon	1.2						
MonotaRO	1.1						
Mercari	1.1						
Keyence	1.1						
Rakul	1.1						
SMC	0.9						
Seria	0.9						
Z Holdings	0.8						
Broadleaf	0.7						
Demae-can	0.7						
M3	0.7						
Pigeon	0.7						
freee K.K.	0.6						
Vector	0.6						
Infomart	0.6						
Digital Garage	0.5						
Nihon M&A Center	0.5						
Noritsu Koki	0.5						

PeptiDream	0.5			
Bengo4.com	0.5			
Lifenet Insurance	0.4			
BASE	0.4			
Istyle	0.4			
Rizap	0.4			
Nippon Ceramic	0.3			
	47.5	13.9	16.2	22.4

¹Secular Growth: Opportunity to grow rapidly but where there are a number of potential outcomes.

²Growth Stalwarts: Growth is less rapid but more predictable.

³Special Situations: Performance has not been good but there is a reason to believe improvements are underway.

⁴Cyclical Growth: Earnings do not rise every year but are expected to be higher from one cycle to the next

List of Investments at 31 August 2023

Name	Business	2023 Value £'000	2023 % of total investments	Absolute* performance %	Relative* performance %
SoftBank Group	Information, communication and utilities	45,420	5.3	3.7	(2.9)
Sumitomo Mitsui Trust Bank	Financials	31,818	3.7	14.4	7.2
SBI Holdings	Financials	29,900	3.5	(0.6)	(6.9)
Rakuten	Commerce and services	27,787	3.2	(24.6)	(29.4)
FANUC	Electricals and electronics	25,540	3.0	(17.8)	(23.0)
Calbee	Pharmaceuticals and food	25,206	2.9	(6.6)	(12.5)
Sony	Electricals and electronics	24,747	2.9	(4.1)	(10.1)
GMO Internet	Information, communication and utilities	23,367	2.7	(20.1)	(25.1)
Kubota	Manufacturing and machinery	22,831	2.7	(4.1)	(10.2)
mixi	Commerce and services	21,141	2.5	(7.9)	(13.7)
Shiseido	Manufacturing and machinery	20,502	2.4	(1.2)	(7.4)
MS&AD Insurance	Financials	19,159	2.2	14.9	7.7
Bridgestone	Manufacturing and machinery	19,096	2.2	(4.4)	(10.4)

DMG Mori	Manufacturing and machinery	18,802	2.2	32.0	23.7
Itochu	Commerce and services	18,735	2.2	28.3	20.3
Unicharm	Chemicals and other materials	18,711	2.2	5.5	(1.2)
Nintendo	Manufacturing and machinery	18,216	2.1	(1.1)	(7.3)
CyberAgent	Commerce and services	17,967	2.1	(40.2)	(44.0)
Recruit Holdings	Commerce and services	17,467	2.0	2.3	(4.1)
Sumitomo Metal Mining	Chemicals and other materials	17,416	2.0	(6.9)	(12.8)
Misumi	Commerce and services	16,789	2.0	(7.9)	(13.7)
Sato	Manufacturing and machinery	16,497	1.9	(1.1)	(7.3)
Pola Orbis	Chemicals and other materials	15,795	1.8	8.8	2.0
Rohm	Electricals and electronics	15,575	1.8	2.7	(3.7)
Systemex	Electricals and electronics	15,231	1.8	(20.6)	(25.6)
Nifco	Chemicals and other materials	13,839	1.6	20.9	13.3
DENSO	Manufacturing and machinery	13,631	1.6	16.4	9.1
Oisix	Retail	13,497	1.6	(24.0)	(28.8)
Murata Manufacturing	Electricals and electronics	12,898	1.5	(3.6)	(9.7)
Tokyo Tatemono	Real estate and construction	11,466	1.3	(17.0)	(22.2)
GA Technologies	Information, communication and utilities	11,348	1.3	(29.9)	(34.3)
Nidec	Electricals and electronics	11,261	1.3	(27.9)	(32.4)
Colopl	Information, communication and utilities	10,694	1.3	(18.8)	(23.9)
TKP	Real estate and construction	10,200	1.2	(3.0)	(9.1)
Topcon	Manufacturing and machinery	9,878	1.2	(17.4)	(22.6)
MonotaRO	Retail	9,652	1.1	(39.9)	(43.7)
Mercari	Information, communication and utilities	9,525	1.1	27.6	19.6
Keyence	Electricals and electronics	9,481	1.1	0.6	(5.7)
Rakusl	Information, communication and utilities	9,150	1.1	14.0	6.9

Chugoku Marine Paints	Chemicals and other materials	8,510	1.0	45.3	36.2
SMC	Manufacturing and machinery	7,884	0.9	(6.2)	(12.1)
Seria	Retail	7,726	0.9	(24.6)	(29.4)
Outsourcing	Commerce and services	7,613	0.9	(16.3)	(21.5)
Sugi	Retail	7,174	0.8	(2.4)	(8.5)
Z Holdings#	Communication services	7,146	0.8	11.1†	2.4†
Kao#	Chemicals and other materials	6,752	0.8	1.1†	(9.3)†
Broadleaf	Information, communication and utilities	6,278	0.7	(8.8)	(14.6)
Demae-can#	Information, communication and utilities	6,215	0.7	(20.2)†	(31.1)†
Olympus#	Pharmaceuticals and food	6,206	0.7	7.9†	2.7†
M3#	Commerce and services	6,124	0.7	(4.0)†	(5.7)†
Iida Group Holdings	Real estate and construction	6,123	0.7	2.0	(4.4)
Pigeon	Manufacturing and machinery	5,901	0.7	(27.0)	(31.6)
Park24	Real estate and construction	5,420	0.6	(9.9)	(15.6)
freee K.K.	Information, communication and utilities	5,113	0.6	(11.1)	(16.6)
Vector#	Information, communication and utilities	4,787	0.6	(3.2)†	(4.7)†
Infomart	Commerce and services	4,763	0.6	(3.4)	(9.5)
SWCC Showa#	Electricals and electronics	4,637	0.5	(2.4)†	(4.0)†
Digital Garage	Information, communication and utilities	4,228	0.5	(15.6)	(20.9)
Nihon M&A Center#	Commerce and services	4,128	0.5	(9.9)†	(15.6)†
Noritsu Koki	Manufacturing and machinery	4,111	0.5	5.2	(1.4)
PeptiDream	Pharmaceuticals and food	4,072	0.5	(2.8)	(8.9)
Shima Seiki	Manufacturing and machinery	4,017	0.5	(21.4)	(26.4)
Bengo4.com	Commerce and services	3,884	0.5	14.5	7.3
Lifenet Insurance#	Financials	3,728	0.4	(3.2)†	(1.4)†

BASE	Information, communication and utilities	3,686	0.4	0.7	(5.7)
Istyle	Information, communication and utilities	3,359	0.4	(15.1)	(20.5)
Rizap	Commerce and services	3,124	0.4	10.1	3.1
Nippon Ceramic	Electricals and electronics	2,805	0.3	(10.5)	(16.1)
Sawai Pharmaceutical	Pharmaceuticals and food	2,737	0.3	2.2	(4.2)
Total investments		858,486	100.0		
Net liquid assets		6,200			
Total assets		864,686			
Bank loans		(131,723)			
Equity shareholders' funds		732,963			

* Absolute and relative performance have been calculated on a total return basis over the period 1 September 2022 to 31 August 2023. For investments held for part of the year, the return is for the period they were held. Absolute performance is in sterling terms; relative performance is against TOPIX total return (in sterling terms).

† Figures relate to part period returns.

New purchase during the year. Complete sales in the year were Inpex, Lifull, Makita, Secom, Shimano, Toyota Tsusho and Tsubaki Nakashima.

Source: Revolution/Baillie Gifford and relevant underlying index providers. See disclaimer at the end of this announcement.

Past performance is not a guide to future performance.

Income Statement

For the year ended 31 August

	2023 Revenue £'000	2023 Capital £'000	2023 Total £'000	2022 Revenue £'000	2022 Capital £'000	2022 Total £'000
Losses on investments	–	(70,082)	(70,082)	–	(174,357)	(174,357)
Currency gains	–	17,005	17,005	–	8,222	8,222
Income (note 2)	18,707	–	18,707	20,075	–	20,075
Investment management fee (note 3)	(4,448)	–	(4,448)	(4,802)	–	(4,802)
Other administrative expenses	(688)	–	(688)	(742)	–	(742)

Net return before finance costs and taxation	13,571	(53,077)	(39,506)	14,531	(166,135)	(151,604)
Finance costs of borrowings	(1,869)	–	(1,869)	(1,866)	–	(1,866)
Net return before taxation	11,702	(53,077)	(41,375)	12,665	(166,135)	(153,470)
Tax	(1,870)	–	(1,870)	(2,004)	–	(2,004)
Net return after taxation	9,832	(53,077)	(43,245)	10,661	(166,135)	(155,474)
Net return per ordinary share (note 4)	10.52p	(56.79p)	(46.27p)	11.31p	(176.19p)	(164.88p)

Total column of this statement is the profit and loss account of the Company. The supplementary revenue and capital return columns are prepared under guidance published by the Association of Investment Companies.

All revenue and capital items in this statement derive from continuing operations.

A Statement of Comprehensive Income is not required as the Company does not have any other comprehensive income and the net return after taxation is both the profit and total comprehensive income for the year.

The accompanying notes below are an integral part of the Financial Statements.

Balance Sheet

As at 31 August

	2023 £'000	2023 £'000	2022 £'000	2022 £'000
Fixed assets				
Investments		858,486		930,354
Current assets				
Debtors	1,811		2,185	
Cash and cash equivalents	6,030		11,017	
	7,841		13,202	
Creditors				
Amounts falling due within one year	(1,641)		(94,895)	
Net current assets/(liabilities)		6,200		(81,693)
Total assets less current liabilities		864,686		848,661

Creditors		
Amounts falling due after more than one year (note 6)	(131,723)	(57,655)
Net assets	732,963	791,006
Capital and reserves		
Share capital	4,717	4,717
Share premium account	213,902	213,902
Capital redemption reserve	203	203
Capital reserve	496,965	556,414
Revenue reserve	17,176	15,770
Shareholders' funds	732,963	791,006
Net asset value per ordinary share	787.7p	842.4p

Statement of Changes in Equity

For the year ended 31 August 2023

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve* £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 September 2022	4,717	213,902	203	556,414	15,770	791,006
Shares bought back	–	–	–	(6,372)	–	(6,372)
Net return on ordinary activities after taxation	–	–	–	(53,077)	9,832	(43,245)
Dividends paid in the year	–	–	–	–	(8,426)	(8,426)
Shareholders' funds at 31 August 2023	4,717	213,902	203	496,965	17,176	732,963

For the year ended 31 August 2022

	Share capital	Share premium	Capital redemption	Capital reserve*	Revenue reserve	Shareholders' funds
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	£'000	account £'000	reserve £'000	£'000	£'000	£'000
Shareholders' funds at 1 September 2021	4,717	213,902	203	725,811	10,769	955,402
Shares bought back	–	–	–	(3,262)	–	(3,262)
Net return on ordinary activities after taxation	–	–	–	(166,135)	10,661	(155,474)
Dividends paid in the year	–	–	–	–	(5,660)	(5,660)
Shareholders' funds at 31 August 2022	4,717	213,902	203	556,414	15,770	791,006

* The capital reserve includes investment holding gains of £44,038,000 (2022 – £137,669,000). The revenue reserve of £17,176,000 and the capital reserve (to the extent it constitutes realised profits) of £440,448,000 are distributable.

Cash Flow Statement

	2023 £'000	2023 £'000	2022 £'000	2022 £'000
Cash flows from operating activities				
Net return on ordinary activities before taxation	(41,375)		(153,470)	
Net losses on investments	70,082		174,357	
Currency gains	(17,005)		(8,222)	
Finance costs of borrowings	1,869		1,866	
Overseas withholding tax	(1,912)		(1,996)	
Changes in debtors and creditors	373		(284)	
Cash from operations		12,032		12,251
Interest paid		(1,961)		(1,827)
Net cash inflow from operating activities		10,071		10,424

Cash flows from investing activities

Acquisitions of investments	(99,512)	(197,244)
Disposals of investments	101,483	145,489
Net cash inflow/(outflow) from investing activities	1,971	(51,755)
Cash flows from financing activities		
Shares bought back	(7,926)	(1,709)
Equity dividends paid	(8,426)	(5,660)
Bank loans drawn down	107,124	16,189
Bank loans repaid	(106,131)	–
Net cash (outflow)/inflow from financing activities	(15,359)	8,820
Decrease in cash and cash equivalents	(3,317)	(32,511)
Exchange movements	(1,670)	(761)
Cash and cash equivalents at start of period	11,017	44,289
Cash and cash equivalents at end of period*	6,030	11,017

* Cash and cash equivalents represent cash at bank and short term money market deposits repayable on demand.

Cash from operations includes dividends received of £19,122,000 (2022 – £19,993,000) and interest received of £3,000 (2022 – nil).

Notes to the Financial Statements

- The Financial Statements for the year to 31 August 2023 have been prepared in accordance with FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' on the basis of the accounting policies set out below which are unchanged from the prior year and have been applied consistently.

The Financial Statements have also been prepared in accordance with the Companies Act 2006, and with the AIC's Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued in November 2014 and updated in July 2022 with consequential amendments.

All of the Company's operations are of a continuing nature and the Financial Statements are prepared on a going concern basis under the historical cost convention, modified to include the revaluation of fixed asset investments and derivative financial instruments at fair value through profit or loss, and on the assumption that approval as an investment trust under section 1158 of the Corporation Tax Act 2010 and the Investment Trust (Approved Company) (Tax) Regulations 2011 will be retained. The Board has, in particular, considered the impact of

heightened market volatility and macroeconomic and geopolitical concerns, including rising inflation and interest rates. It has reviewed the results of specific leverage and liquidity stress testing and does not believe the Company's going concern status is affected. In addition, the Company is subject to an annual continuation vote which in previous years has been passed with a significant majority. The Directors have no reason to believe that the vote will not continue to be in favour based on their assessment of the Company's performance and the views collated from shareholders. The Company's assets, the majority of which are investments in quoted securities which are readily realisable, exceed its liabilities significantly. All borrowings require the prior approval of the Board. Gearing levels and compliance with borrowing covenants are reviewed by the Board on a regular basis.

The Company has continued to comply with the investment trust status requirements of section 1158 of the Corporation Tax Act 2010 and the Investment Trust (Approved Company) (Tax) Regulations 2011. The Company's primary third party suppliers, including its Managers and Secretaries, Depository and Custodian, Registrar, Auditor and Broker, are not experiencing significant operational difficulties affecting their respective services to the Company.

In preparing these Financial Statements, the Directors have considered the impact of climate change risk as a principal risk set out on page 39 of the Annual Report and Financial Statements, and have concluded that it does not have a material impact on the Company's investments. The Directors consider the impact of climate change on the value of the investments included in the Financial Statements to already include the impact in their prices as the investments are quoted on a stock exchange.

Accordingly, the Financial Statements have been prepared on a going concern basis as it is the Directors' opinion, having assessed the principal and emerging risks and other matters set out in the Viability Statement on page 37 of the Annual Report and Financial Statements which assesses the prospects of the Company over a period of five years, that the Company will continue in operational existence until 30 November 2024, which is for a period of at least twelve months from the date of approval of these Financial Statements.

In order to better reflect the activities of the Company and in accordance with guidance issued by the AIC, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been presented.

Financial assets and financial liabilities are recognised in the Company's Balance Sheet when it becomes a party to the contractual provisions of the instrument.

The Directors consider the Company's functional and presentation currency to be sterling, (see consideration in accounting policy (j)) on page 85 of the Annual Report and Financial Statements, as the Company's shareholders are predominantly based in the UK, the Company pays its dividends and expenses in sterling and the Company and its Investment Manager, who are subject to the UK's regulatory environment, are also UK based.

2. **Income**

	2023 £'000	2022 £'000
Income from investments		
Overseas dividends	18,704	20,073

Other income

Deposit interest	3	2
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Total income	18,707	20,075
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Special dividends received during the year amounted to £471,000 (2022 - £66,000) with £471,000 (2022 - £66,000) classed as revenue and nil (2022 – nil) classed as capital.

3. Investment Management Fee – All Charged to Revenue

	2023	2022
	£'000	£'000
Investment management fee	4,448	4,802

Details of the Investment Management Agreement are disclosed on page 50 of the Annual Report and Financial Statements.

4. Net Return per Ordinary Share

	2023	2023	2023	2022	2022	2022
	Revenue	Capital	Total	Revenue	Capital	Total
Net return per ordinary share on ordinary activities after taxation	10.52p	(56.79p)	(46.27p)	11.31p	(176.19p)	(164.88p)

Revenue return per ordinary share is based on the net revenue profit after taxation of £9,832,000 (2022 – net revenue profit of £10,661,000) and on 93,451,827 (2022 – 94,292,038) ordinary shares, being the weighted average number of ordinary shares in issue (excluding treasury shares) during the year.

Capital return per ordinary share is based on the net capital loss for the financial year of £53,077,000 (2022 – net capital loss of £166,135,000) and on 93,451,827 (2022 – 94,292,038) ordinary shares, being the weighted average number of ordinary shares in issue (excluding treasury shares) during the year.

Total return per ordinary share is based on the total loss for the financial year of £43,245,000 (2022 – total loss of £155,474,000) and on 93,451,827 (2022 – 94,292,038) ordinary shares, being the weighted average number of ordinary shares in issue (excluding treasury shares) during the year.

There are no dilutive or potentially dilutive shares in issue.

5. Ordinary Dividends

	2023	2022	2023	2022
			£'000	£'000
Amounts recognised as distributions in the year:				
Previous year's final dividend (paid 21 December 2022)	9.00p	6.00p	8,426	5,660

	2023	2022	2023 £'000	2022 £'000
Dividends paid and payable in respect of the year:				
Current year's proposed final dividend (payable 20 December 2023)	10.00p	9.00p	9,305*	8,426

* Based on ordinary shares in issue at 31 August 2023.

If approved, the recommended final dividend will be paid on 20 December 2023 to shareholders on the register at close of business on 17 November 2023. The ex-dividend date is 16 November 2023. Further information can be found in the Dividend section of the Chairman's Statement.

6. Total borrowings at 31 August 2023 were ¥24.3 billion (2022 - ¥24.1 billion) and are detailed in note 12 on page 89 of the Annual Report and Financial Statements.
7. The transaction costs of purchases and sales were £34,000 (2022 - £70,000) and £29,000 (2022 - £66,000) respectively.
8. In the year to 31 August 2023, 851,845 shares with a nominal value of £42,600, representing 0.9% of the issued share capital at 31 August 2022, were bought back at a cost of £6,372,000 and held in treasury (31 August 2022 - 428,750 shares with a nominal value of £22,000 representing 0.5% of the issued share capital at 31 August 2021, were bought back at a cost of £3,262,000 and held in treasury). At 31 August 2023, the Company had authority to buy back 13,187,431 ordinary shares. Over the period from 1 September to 30 October a further 1,205,000 shares have been bought back and held in treasury at a cost of £8,209,000.

In the year to 31 August 2023, the Company sold no ordinary shares from treasury (2022 - no ordinary shares). The Company issued no further ordinary shares (2022 - no ordinary shares). As at 31 August 2023 the Company had the authority to issue 9,365,761 ordinary shares. Over the period from 1 September 2024 to 30 October 2023 no further shares were issued by the Company.
9. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 August 2023 or 2022 but is derived from those accounts. Statutory accounts for 2022 have been delivered to the registrar of companies, and those for 2023 will be delivered in due course. The Auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the Auditor drew attention by way of emphasis without qualifying their report; and, (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.
10. The Annual Report and Financial Statements will be available on the Company's page on the Managers' website japantrustplc.co.uk† on or around 9 November 2023.

†Neither the contents of the Managers' website nor the contents of any website accessible from hyperlinks on the Managers' website (or any other website) is incorporated into, or forms part of, this announcement.

None of the views expressed in this document should be construed as advice to buy or sell a particular investment.

Glossary of Terms and Alternative Performance Measures ('APM')

Total Assets

The total value of all assets held less all liabilities (other than liabilities in the form of borrowings).

Net Asset Value

Also described as shareholders' funds, net asset value ('NAV') is the value of total assets less liabilities (including borrowings). The NAV per share is calculated by dividing this amount by the number of ordinary shares in issue (excluding treasury shares). Borrowings are valued at their nominal par value. Par value approximates to amortised cost. The Company's yen denominated loans are valued at their sterling equivalent.

(Discount)/Premium (APM)

As stockmarkets and share prices vary, an investment trust's share price is rarely the same as its NAV. When the share price is lower than the NAV per share it is said to be trading at a discount. The size of the discount is calculated by subtracting the share price from the NAV per share and is usually expressed as a percentage of the NAV per share. If the share price is higher than the NAV per share, this situation is called a premium.

		31 August 2023	31 August 2022
Net asset value per share	(a)	787.7p	842.4p
Share price	(b)	735.0p	774.0p
Discount	((b) – (a)) ÷ (a)	(6.7%)	(8.1%)

Total Return (APM)

The total return is the return to shareholders after reinvesting the net dividend on the date that the share price goes ex-dividend.

		2023 NAV	2023 Share price	2022 NAV	2022 Share price
Closing NAV per share/share price	(a)	787.7p	735.0p	842.4p	774.0p
Dividend adjustment factor*	(b)	1.0113	1.0113	1.0058	1.0059
Adjusted closing NAV per share/share price	(c) = (a) x (b)	796.6p	743.3p	847.3p	778.6p
Opening NAV per share/share price	(d)	842.4p	774.0p	1,012.8p	1,022.0p
Total return	((c) ÷ (d)) – 1	(5.4%)	(4.0%)	(16.3%)	(23.8%)

* The dividend adjustment factor is calculated on the assumption that the dividend of 9.00p (2022 – 6.00p) paid by the Company during the year was invested into shares of the Company at the cum income NAV per share/share price, as appropriate, at the ex-dividend date.

Turnover

Annual turnover is calculated on a rolling 12 month basis. The lower of purchases and sales for the 12 months is divided by the average assets, with average assets being calculated on assets as at each month's end.

Ongoing Charges (APM)

The total expenses (excluding borrowing costs) incurred by the Company as a percentage of the average net asset value.

		2023 £'000	2022 £'000
Investment management fee		4,448	4,802
Other administrative expenses		688	742
Total expenses	(a)	5,136	5,544
Average net asset value*	(b)	£764,686	£843,789
Ongoing charges	(a) ÷ (b) expressed as a percentage	0.67%	0.66%

* Average of daily net asset values calculated during the year.

Gearing (APM)

At its simplest, gearing is borrowing. Just like any other public company, an investment trust can borrow money to invest in additional investments for its portfolio. The effect of the borrowing on the shareholders' assets is called 'gearing'. If the Company's assets grow, the shareholders' assets grow proportionately more because the debt remains the same. But if the value of the Company's assets falls, the situation is reversed. Gearing can therefore enhance performance in rising markets but can adversely impact performance in falling markets. The level of gearing can be adjusted through the use of derivatives which affect the sensitivity of the value of the portfolio to changes in the level of markets.

Gearing is the Company's borrowings less cash and cash equivalents expressed as a percentage of shareholders' funds. Potential gearing is the Company's borrowings expressed as a percentage of shareholders' funds.

		2023		2022	
		Gearing* £'000	Potential gearing † £'000	Gearing* £'000	Potential gearing † £'000
Borrowings	(a)	131,723	131,723	149,407	149,407
Cash and cash equivalents	(b)	6,030	–	11,017	–
Shareholders' funds	(c)	732,963	732,963	791,006	791,006
Gearing		17.1%	18.0%	17.5%	18.9%

* Gearing: ((a) - (b)) divided by (c), expressed as a percentage.

† Potential gearing: (a) divided by (c), expressed as a percentage.

Leverage (APM)

For the purposes of the UK Alternative Investment Fund Managers ('AIFM') Regulations, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company's exposure and its net asset value and can be calculated on a gross and a commitment method. Under the gross method, exposure represents the sum of the Company's positions after the deduction of sterling cash balances, without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated without the deduction of sterling cash balances and after certain hedging and netting positions are offset against each other.

Active Share (APM)

Active share, a measure of how actively a portfolio is managed, is the percentage of the portfolio that differs from its comparative index. It is calculated by deducting from 100 the percentage of the portfolio that overlaps with the comparative index. An active share of 100 indicates no overlap with the index and an active share of zero indicates a portfolio that tracks the index.

Sustainable Finance Disclosure Regulation ('SFDR')

The EU Sustainable Finance Disclosure Regulation ('SFDR') does not have a direct impact in the UK due to Brexit, however, it applies to third-country products marketed in the EU. As Baillie Gifford Japan is marketed in the EU by the AIFM, Baillie Gifford & Co Limited, via the National Private Placement Regime ('NPPR') the following disclosures have been provided to comply with the high-level requirements of SFDR.

The AIFM has adopted Baillie Gifford & Co's ESG Principles and Guidelines as its policy on integration of sustainability risks in investment decisions.

Baillie Gifford & Co believes that a company cannot be financially sustainable in the long run if its approach to business is fundamentally out of line with changing societal expectations. It defines 'sustainability' as a deliberately broad concept which encapsulates a company's purpose, values, business model, culture, and operating practices.

Baillie Gifford & Co's approach to investment is based on identifying and holding high quality growth businesses that enjoy sustainable competitive advantages in their marketplace. To do this it looks beyond current financial performance, undertaking proprietary research to build up an in-depth knowledge of an individual company and a view on its long-term prospects. This includes the consideration of sustainability factors (environmental, social and/or governance matters) which it believes will positively or negatively influence the financial returns of an investment. The likely impact on the return of the portfolio from a potential or actual material decline in the value of investment due to the occurrence of an environmental, social or governance event or condition will vary and will depend on several factors including but not limited to the type, extent, complexity and duration of an event or condition, prevailing market conditions and existence of any mitigating factors.

Whilst consideration is given to sustainability matters, there are no restrictions on the investment universe of the Company, unless otherwise stated within its Investment Objective & Policy. Baillie Gifford & Co can invest in any companies it believes could create beneficial long-term returns for investors. However, this might result in investments being made in companies that ultimately cause a negative outcome for the environment or society.

More detail on the Investment Manager's approach to sustainability can be found in the ESG Principles and Guidelines document, available publicly on the Baillie Gifford website: [bailliegifford.com](https://www.bailliegifford.com).

The underlying investments do not take into account the EU criteria for environmentally sustainable economic activities established under the EU Taxonomy Regulation.

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