

Japan Small Cap Quarterly Update

30 June 2024



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Past performance is not a guide to future returns. Changes in investment strategies, contributions or withdrawals may materially alter the performance and results of the portfolio. Material market or economic conditions will have an impact on investment results. The returns presented in this document are gross of fees unless otherwise stated and reflect the reinvestment of dividends and interest.

Historical performance results for investment indexes and/or categories, generally do not reflect the deduction of transaction costs and/or custodial charges or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing historical performance results. 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 paper 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.

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

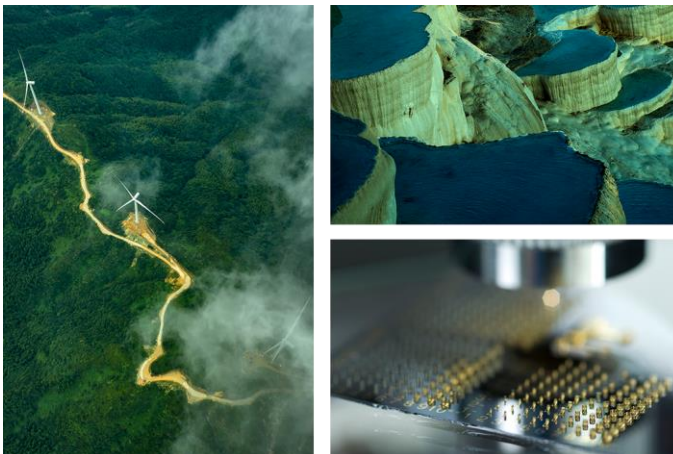
Number of Holdings	70
Typical Number of Holdings	40-80
Active Share	96%*
Annual Turnover	18%

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

A performance wedge between small caps and large caps continues to impact returns

Underlying portfolio characteristics are positive and remain disconnected from share prices

We are confident that the innovative, high growth companies within the portfolio remain well-placed to deliver attractive returns over the long term



Baillie Gifford Key Facts

Assets under management and advice	US\$283.7bn
Number of clients	649
Number of employees	1738
Number of investment professionals	372

Market Environment

Japan continues to dominate the headlines, drumming up excitement for Japanese equities, but it has not been shared equally across the corporate landscape. The stock market continued its impressive rally, with the Topix hitting a 34 year high. The period also saw the Yen reach a 38 year nadir, despite central bankers spending a record ¥9.8tn in an attempt to prop it up. In this environment it is perhaps unsurprising that many cyclical companies, which we believe are more reflective of the past than the future, have continued to outperform. This is illustrated by large cap goods exporters, which have seen healthy growth despite underwhelming global economic growth. In contrast, the small-cap growth stocks in which the portfolio invests, have been largely ignored.

A flood of foreign capital flowing into Japan's largest and most liquid cyclical companies, epitomised by Toyota Motor, has further exacerbated this trend. It has helped widen the performance wedge between small and large businesses, with the latter outperforming by 25 per cent cumulatively over the past 3 years. Within the small-cap space, we have also witnessed a decoupling of performance between value and growth as the prospect of rising rates has caused a de-rating of high-growth businesses. Small-cap value has outperformed small-cap growth by 25 per cent cumulatively over the same period.

This backdrop has significantly hurt the portfolio's absolute and relative performance. Relative to peers and the benchmark, the portfolio stands out for being positioned further down the market cap spectrum, with a greater allocation to small and micro stocks. Although this is where we see high inefficiencies and therefore the greatest growth potential long-term, it has been particularly punished in recent years.

Performance Review

At a portfolio level, fundamentals remain robust over the long term, with sales and earnings growth both nearly double that of the market and this is projected to continue. Despite this superior growth on offer, the portfolio still only trades at a marginal premium when looking at valuation. We believe this puts us at an exciting point for the rebound and we remain committed to our process of finding and holding innovative high-growth companies for the portfolio.

Despite the strength in fundamentals, we're still experiencing an extreme disconnect with share price performance.

The following three companies are examples of the c.50 per cent of the portfolio that is growing its 3-year sales CAGR above 15 per cent and in most cases, have seen its market cap unjustly slashed over the past few years.

Bengo4.com

Longstanding holding Bengo4.com has an online legal platform and is making advice affordable and accessible to many Japanese people, who would otherwise not seek legal services due to the barriers in doing so. The online platform is very transparent and easy to use and, over time, the company has expanded by adding additional services. Cloudsign, an electronic signature service similar to DocuSign that is driving the shift away from paper-based documents, has been making rapid progress. It has already achieved a dominant share of the public sector market and now represents more than half of total sales. This is an example of a company trying to solve a unique Japanese problem and the opportunity is huge; Bengo4.com currently has less than 1 per cent share of a legal service market estimated at ¥800bn. The firm also consistently delivered top line growth of over 25 per cent, with operating margins >15 per cent. We remain confident that it is well positioned to continue to benefit from the shift towards digitisation.

GA Technologies

GA Technologies is an online real estate company that is being fuelled by artificial intelligence to automate the entire value chain of buying and selling property. It allows clients to manage numerous property related tasks, such as remote viewing and management of properties, end-to-end processing of mortgages, and automated generation of building floor plans. The ultimate opportunity for the company is to replace traditional industry practices with advanced, scalable cloud-based alternatives that save both time and money for its clients. In exchange, GA Technologies gets to target a sizeable end market, where it has first mover advantage and a differentiated business model. Since listing eight years ago, the company has already surpassed \$1bn in sales, is profitable, and has expanding margins. Despite this, it currently trades on a price-to-sales multiple of 0.3x, which is an extreme level of valuation for a fast-trading business that is scaling quickly.

Oisix

Oisix, the Hello Fresh of Japan provides high-quality meal kits and organic food through online ordering, delivering to over 400,000 customers throughout the country. Both areas have been growing from a low base and still have a long growth runway ahead. Oisix has built up a strong network, buying directly from farmers and selling to end consumers, removing the middleman, which helps to ensure fresher products and better prices for consumers. It has been investing in logistics, which has impacted short-term profits, but overall will deepen its long-term competitive edge. The company is now forecasting close to \$2bn in sales and profit growth of 40 per cent for the next year, yet in a similar vein to GA Technologies, the price-to-sales multiple is a mere 0.3x.

The above companies are just a few examples of dynamic entrepreneurial small businesses that are helping to drive change in the Japanese economy by disrupting traditional business practices and providing sophisticated solutions for consumers. Whilst they may be underappreciated by the market, we continually monitor portfolio holdings to ensure they are delivering strong operational progress and are pursuing genuine growth opportunities that will outlast the ups and downs of investor sentiment.

Notable Transactions

During the quarter we took two new esoteric positions in Global Security Experts and Gift Holdings.

Global Security Experts (GSE) is a cybersecurity consulting firm that is focused on Small and medium-sized enterprises (SMEs). Currently, SME spending on cybersecurity is very low because of the lack of understanding of why this is important, presenting an opportunity for GSE to provide solutions at affordable prices.

Gift Holdings is one of Japan's largest ramen restaurants. It has a unique model whereby it operates its own stores but also supplies raw materials to a network of franchisees with a very simple charging structure. This significantly lowers the barrier for franchisees to join its ecosystem thereby enabling the company to expand rapidly at a very low cost and high margin.

These were funded from the sales of several companies where we had lost conviction. One example is WDB Holdings, the temporary staffing agency, where we had concerns around future scalability and edge. Another is Kitanotatsujin Corp, the skincare and cosmetic retailer, which has struggled to grow its subscriber base in the last few years, undermining its long-term competitive advantage.

Market Outlook

Japan now stands on the brink of a remarkable investment renaissance having shed many of the negative connotations attached to its past. The country is no longer simply a place to trade, but a place more conducive to invest. Engagement is rising and valuations remain attractive.

We believe we are reaching an inflexion point in market expectations. Cyclical returns that have dominated market returns now trade well above their 10-year average valuation multiples, and the supportive macroeconomic factors behind recent earnings growth appear to be dissipating. Contrast that with a portfolio that has consistently grown far faster than the market, thanks to several enduring structural growth trends, and is no longer priced at a significant premium to the market. We believe this creates an exciting opportunity for upside from this point on.

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 Net (%)	Benchmark (%)	Difference (%)
3 Months	-10.5	-5.8	-4.7
1 Year	-16.8	7.5	-24.4
3 Years	-17.8	1.3	-19.2
5 Years	-7.4	3.4	-10.8
10 Years	5.5	8.2	-2.7
Since Inception	4.4	3.2	1.1
USD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	-10.4	-5.7	-4.7
1 Year	-17.3	6.9	-24.2
3 Years	-20.2	-1.6	-18.6
5 Years	-7.5	3.3	-10.8
10 Years	2.3	5.0	-2.6
Since Inception	3.6	2.5	1.1
EUR	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	-9.7	-5.0	-4.7
1 Year	-15.8	8.8	-24.7
3 Years	-17.5	1.8	-19.3
5 Years	-6.4	4.5	-11.0
10 Years	4.9	7.6	-2.7
Since Inception	3.9	2.7	1.1
CAD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	-9.4	-4.7	-4.7
1 Year	-14.5	10.6	-25.1
3 Years	-17.5	1.7	-19.3
5 Years	-6.7	4.2	-10.9
10 Years	4.9	7.6	-2.7
Since Inception	4.1	3.0	1.1
AUD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	-12.5	-7.9	-4.6
1 Year	-17.6	6.6	-24.2
3 Years	-17.1	2.3	-19.4
5 Years	-6.6	4.3	-10.9
10 Years	5.9	8.7	-2.7
Since Inception	4.1	3.0	1.1

Annualised periods ended 30 June 2024. 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 (Market cap weighted composite index of TOPIX 2nd Section, TOPIX Small & Jasdac prior to 30 April 2010).

Source: Revolution, MSCI, Tokyo Stock Exchange.

The Japan Small Cap composite is more concentrated than the MSCI Japan Small Cap Index.

Discrete Performance

GBP	30/06/19- 30/06/20	30/06/20- 30/06/21	30/06/21- 30/06/22	30/06/22- 30/06/23	30/06/23- 30/06/24
Composite Net (%)	10.4	11.1	-33.7	0.6	-16.8
Benchmark (%)	4.6	8.8	-10.4	8.0	7.5
USD	30/06/19- 30/06/20	30/06/20- 30/06/21	30/06/21- 30/06/22	30/06/22- 30/06/23	30/06/23- 30/06/24
Composite Net (%)	7.2	24.2	-41.7	5.3	-17.3
Benchmark (%)	1.5	21.6	-21.2	13.0	6.9
EUR	30/06/19- 30/06/20	30/06/20- 30/06/21	30/06/21- 30/06/22	30/06/22- 30/06/23	30/06/23- 30/06/24
Composite Net (%)	8.7	17.6	-33.9	0.9	-15.8
Benchmark (%)	2.9	15.2	-10.6	8.3	8.8
CAD	30/06/19- 30/06/20	30/06/20- 30/06/21	30/06/21- 30/06/22	30/06/22- 30/06/23	30/06/23- 30/06/24
Composite Net (%)	11.8	12.9	-39.3	8.0	-14.5
Benchmark (%)	5.8	10.6	-17.9	15.9	10.6
AUD	30/06/19- 30/06/20	30/06/20- 30/06/21	30/06/21- 30/06/22	30/06/22- 30/06/23	30/06/23- 30/06/24
Composite Net (%)	9.3	13.9	-36.4	8.8	-17.6
Benchmark (%)	3.5	11.5	-14.0	16.8	6.6

Benchmark is MSCI Japan Small Cap Index (Market cap weighted composite index of TOPIX 2nd Section, TOPIX Small & Jasdq prior to 30 April 2010).

Source: Revolution, MSCI, Tokyo Stock Exchange.

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 June 2024

Stock Name	Contribution (%)
Yonex	1.1
Lifenet Insurance	0.7
Noritsu Koki	0.6
Tsugami	0.5
Peptidream	0.5
SWCC Corporation	0.4
Kohoku Kogyo	0.4
Anicom	0.3
Jeol	0.3
Harmonic Drive Systems	0.2
Toyo Tanso	-0.7
GMO Financial Gate	-0.6
SIIX	-0.6
GA technologies	-0.5
Kamakura Shinsho	-0.5
Jade Group Inc	-0.5
Infomart	-0.4
Litalico	-0.4
SpiderPlus	-0.4
WealthNavi	-0.4

One Year to 30 June 2024

Stock Name	Contribution (%)
Lifenet Insurance	1.2
SWCC Corporation	1.1
Noritsu Koki	0.9
Yonex	0.5
Jeol	0.4
Horiba	0.3
Toyo Tanso	0.2
Anest Iwata	0.2
Mercari	0.2
SANKEN ELECTRIC	0.1
GMO Financial Gate	-1.6
Asahi Intecc	-1.0
Katitas	-1.0
ENECHANGE	-1.0
RakSul	-1.0
Litalico	-0.9
Nakanishi	-0.9
Nittoku	-0.9
Cosmos Pharmaceutical	-0.8
I-ne	-0.8

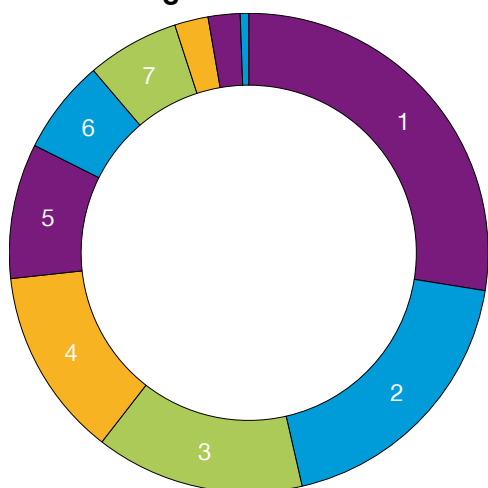
Source: Revolution, MSCI. Japan Small Cap composite relative to MSCI Japan Small Cap Index.

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
Lifenet Insurance	Provides a range of life insurance products and services.	4.1
Toyo Tanso	Electronics company	3.0
Nifco	Value-added plastic car parts	3.0
JEOL	Manufacturer of scientific equipment	2.8
Yonex	Sporting goods	2.6
Nakanishi	Dental equipment.	2.5
Cosmos Pharmaceutical	Drug store chain	2.4
Anicom	Pet insurance provider	2.3
WealthNavi	Operates a wealth management platform	2.2
Noritsu Koki	Holding company with interests in biotech and agricultural products	2.2
Total		27.1

Sector Weights



	%
1 Industrials	27.5
2 Information Technology	18.9
3 Consumer Discretionary	14.1
4 Financials	12.8
5 Communication Services	9.1
6 Health Care	6.4
7 Consumer Staples	6.2
8 Materials	2.3
9 Real Estate	2.2
10 Cash	0.6

Figures may not sum due to rounding.

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	32	Companies	2	Companies	3
Resolutions	289	Resolutions	2	Resolutions	3

Company Engagement

Engagement Type	Company
Environmental	Appier Group, Inc., JADE GROUP, Inc
Social	Appier Group, Inc.
Governance	Appier Group, Inc., Bengo4.com, Inc., Descente Ltd., JADE GROUP, Inc, Nippon Ceramic Co., Ltd., YONEX Co., Ltd.
Strategy	Appier Group, Inc.

Company	Engagement Report
Appier Group, Inc.	<p>Objective: Learn more about the company's approach to governance.</p> <p>Discussion: With the chief executive officer, we discussed the role and contribution of individual board members - some of them appear to go beyond the typical duty of a board member and act as coaches for the executive team. Discussion on dream candidates for the board also led to insight into how the chief executive officer considers the strengths and weaknesses of the company. It is good to see Appier (a newly-listed company) follow up on its promises to us last year to 'catch up' on disclosure with various initiatives, such as launching its TCFD report.</p> <p>Outcome: The company has made progress since our discussion last year.</p>
Appier Group, Inc.	<p>Objective: During a recent engagement in Tokyo, we had the opportunity to meet with Chih-Han Yu, one of Appier's co-founders. Appier provides dynamic web pages that enable web-based businesses to improve their understanding of customer behaviours and habits. We wanted to learn more about Appier's considerations of customer protection and how it is thinking about using customer data.</p> <p>Discussion: The conversation opened by examining Appier's role in customer tracking and product promotion/discovery. We raised the potential for customer manipulation, prompting individuals to spend beyond their means. Mr. Yu shared the company intends to serve as a conduit for enhanced product discovery. He was clear that Appier was not trying to "trick" customers. The discussion also covered the guardrails Appier has established. Notably, the company exercises diligence in its choice of clientele, explicitly excluding entities involved in cryptocurrency, real-money gambling or those with potential political sensitivities. This selective approach extends to its dealings with smartphone gaming companies, where account research precedes any partnership.</p> <p>Furthermore, Appier's commitment to data integrity and privacy was underscored by its policy against aggregating data from different customers. This practice ensures that customer data is protected and used in a manner that respects individual privacy.</p> <p>Outcome: Our discussion with Appier provided valuable insights into its ethical considerations and operational practices, particularly in customer protection and data usage. We came away from the meeting having understood more about the philosophy underpinning its protection of consumer interests.</p>

Votes Cast in Favour

Companies	Voting Rationale
Akatsuki, Anest Iwata, Anicom Holdings Inc, Avex Inc, Bengo4.Com Inc, Daikyonishikawa, Descente Ltd, Harmonic Drive Systems, IRISO Electronics Co Ltd, JEOL, Jade Group Inc, Kamakura Shinsho, Katitas, Kitanotatsujin Corp, LITALICO, Lifenet Insurance, M3, MatsukiyoCocokara & Co, Megachips Corp, Nifco Inc, Nihon M&A, Nittoku, Oisix, SWCC Showa Holdings Co, Seria Co Ltd, Shima Seiki Mfg., Soracom Inc, Torex Semiconductor, Tsugami Corp, Vector, Yonex, eGuarantee Inc	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
Daikyonishikawa	AGM 21/06/24	3	We opposed the election of one inside statutory auditor due to ongoing concerns with the low level of independence on the statutory auditor board.
Companies	Voting Rationale		
JEOL	We opposed the low dividend payment as we believe the company's capital strategy is not in the interests of shareholders.		

Votes Abstained

Company	Meeting Details	Resolution(s)	Voting Rationale
Yonex	AGM 25/06/24	1	We abstained on the low dividend payment as we believe the company is in a position to better utilise its balance sheet. We abstained rather than opposed to recognise the company's efforts to increase the dividend so far and to show our support for their long-term strategy.
Companies	Voting Rationale		
Descente Ltd, IRISO Electronics Co Ltd	We abstained on the low dividend payment as we believe the company's capital strategy is not in the interests of shareholders.		

Votes Withheld

We did not withhold on any resolutions during the period.

Votes Not Cast

Companies	Voting Rationale
WDB Holdings	We did not vote the meeting as we no longer hold the instrument.

New Purchases

Stock Name	Transaction Rationale
Gift Holdings Inc	<p>Gift holdings is one of Japan's largest ramen restaurants. It has a unique model whereby it operates its own stores but also supplies raw materials to a network of franchisees with a very simple charging structure. This significantly lowers the barrier for franchisees to join Gift Holdings' ecosystem thereby enabling the company to expand rapidly at very low cost and high margin. The company is run by its young and dynamic founder who trained as a ramen chef for several years before starting the company without any external money. Ramen is a staple food item in Japan and it is one of the few categories that has grown over the past decade despite demographic headwinds. We believe the current valuation doesn't reflect these attractions and have taken a small holding.</p>
Global Security Experts Inc.	<p>Global Security Experts (GSE) is an SME focused cybersecurity consulting firm. It provides complete end-to-end cybersecurity solutions for SMEs in Japan and is a leading player in this area as far as SMEs are concerned. It advises SMEs on how to identify vulnerabilities in their IT systems, suggests appropriate measures that they can take to plug the identified vulnerabilities, provides training on cybersecurity related matters, and also carries out implementation and post-implementation support work for cybersecurity tools and packages that are ultimately installed by the SME client based on GSE's recommendation. Japan's low IT preparedness for cybersecurity is a well-known and well-documented fact and this problem is greatly amplified at the SME level where knowledge of cybersecurity and ways of dealing with related threats tends to be minimal. The overall market for SME cybersecurity has been growing at high single digits but this is expected to increase meaningfully in the long-term with rising awareness of cyber attacks and the damage they can cause to SMEs. By focusing solely on SMEs and by pricing its services at extremely affordable price points which lower the barrier to adoption, we believe GSE is very well positioned to benefit from the trend of rising SME spend on cybersecurity in Japan. Along with fast sales growth, typically above 20%, GSE is also seeing its margins expand as its services are adopted by an increasing number of SMEs. Given all these attractions, we have taken a starter holding in the company.</p>

Complete Sales

Stock Name	Transaction Rationale
Kitanotatsujin Corp	We have decided to sell the position in Kitanotatsujin, the Japanese skincare and cosmetic retailer. Our enthusiasm for the company was based on its unique and original online subscription model, with focused and differentiated advertising and a strong emphasis on unit returns. However the company has struggled to grow its subscriber base in the last few years and has since pivoted away from its direct sales channel, which we believe undermines its long term competitive advantage in the tough domestic cosmetics market. We have hence decided to allocate the capital to better opportunities elsewhere.
M3	M3 operates Japan's largest online drug advertising and marketing platform. Its primary service is the delivery of drug information to doctors. It also operates in adjacent areas such as clinical trial services and specialist job-search. Its competitive position in the core drug marketing business remains strong but in recent years, there has been growing evidence that this business is reaching maturity and we worry that the company might struggle to replicate the high growth rates that it has historically achieved. In the other business that M3 has been developing over the years, its competitive position is less clear as there are already a number of players, some of whom are strong and deep pocketed. In a bid to diversify its revenue sources and achieve high growth rates, M3 is also making more and larger acquisitions, which is leading to the business becoming very complex to manage. This, we believe, substantially increases execution risk and is compounded by poor transparency. Given these concerns, we decided to sell our entire holding in the company.
Nihon M&A	Nihon M&A is one of Japan's leading SME M&A advisory firms. The SME M&A advisory market in Japan remains attractive as the number of businesses with ageing founders and no successors continues to rise, providing companies like Nihon M&A with ample business opportunities. While historic growth has been impressive, we worry that the industry attractiveness has drawn in a large number of new entrants who are now fighting for a small pool of talented consultants, thereby raising costs for all involved. Along with this, there has been a lot of regulatory discussion around the opacity and the fairness of fees charged by these M&A consultants. We worry that this regulatory scrutiny will only get tougher as the industry matures. Finally, Nihon M&A's recent growth rates have noticeably lagged those of its peers and we worry this could be a sign of the company gradually losing its competitiveness. Given all these concerns, we decided to sell our entire holding in the company.
WDB Holdings	WDB is a temporary staffing agency focused on providing R&D laboratory workers for the pharmaceutical and food industries. The company has done very well in building a high market share in its chosen end markets. However, from here we struggle to see much scope for further share gains. In addition, the company is positioning its clinical research (CRO) business as the next growth driver. The CRO market is much more competitive, with numerous large competitors, and WDB is starting off as a marginal player. We don't have much confidence in the company's ability to scale this business up as we worry they don't have a clear edge in the space. As such, we think the long-term sales and profit growth prospects for the company look decidedly average and we therefore decided to sell our entire holding in the company.

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