

Baillie Gifford™

Baillie Gifford Shin Nippon PLC

Philosophy and Process



For professional
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Company information

Baillie Gifford Shin Nippon PLC, (the ‘Company’ or ‘Shin Nippon’) is an investment trust listed on the London Stock Exchange and is not authorised or regulated by the Financial Conduct Authority. As with any investment, your clients’ capital is at risk. A Key Information Document is available on request.

Company objective

Shin Nippon, which means New Japan, has at its objective, the pursuit of long-term capital growth through investment principally in small Japanese companies which are believed to have above average prospects for capital growth.

Company history

Shin Nippon was launched in July 1985 in order to capitalise on the investment opportunity available among companies too small and illiquid for The Baillie Gifford Japan Trust PLC, which had been launched successfully four years before.

There are several reasons why we believe the Japanese small capitalisation universe can be considered a particularly attractive asset class. First, many of the most interesting emerging service sectors in Japan consist entirely of small companies. They are growing rapidly due to corporate outsourcing and government deregulation, such as temporary labour provision and nursing care. Second, in certain sectors such as retail and finance, companies with the best niche positions, growth prospects and management teams, tend to be small. Third, broker coverage of these stocks can be minimal, giving our Baillie Gifford Japanese Equities Team substantial potential to add value against the market through in-house research.

Company details

SEDOL	BFXYH24
ISIN	GB00BFXYH242
AIC sector	Japanese Smaller Companies
Comparative index	MSCI Japan Small Cap Index, total return, in sterling terms
Launch date	31 July 1985. Baillie Gifford has been the appointed Managers since launch.
Year end	31 January
AGM	May (typically)
Results announced	March and September (typically)
Dividends paid	April/ May (typically, if any)
Management details	Baillie Gifford & Co Limited is appointed as investment Managers and Secretaries to the Company. The management contract is reviewed annually and can be terminated at six months’ notice.
Annual management fee	Baillie Gifford & Co Limited’s annual remuneration is calculated as 0.75% on the first £50 million net assets of the Company attributable to its shareholders, the next £200m is calculated at 0.65%, thereafter 0.55%. This is calculated and payable on a quarterly basis.

Philosophy

We (Baillie Gifford) aim to identify Japan's most dynamic emerging growth companies – often at earlier stages of their development – and support them as they become future leaders.

While our philosophy is rooted in Baillie Gifford's long-term growth mindset, it recognises that the small-cap universe demands a more exploratory and open-minded approach. These businesses are often less well-researched by the market, less predictable, and more influenced by founder ambition and business model evolution. We therefore embrace uncertainty as a source of opportunity rather than risk, using probabilistic thinking to weigh upside potential against downside exposure.

Time is our greatest asset

We invest with patience and conviction. The market's short-termism creates inefficiencies that we can exploit through long holding periods, often five years or more. Time allows fundamental progress to compound and for smaller companies to grow into their potential. Our willingness to support businesses through periods of volatility is a key differentiator – we aim to capture the asymmetric returns that result when early-stage ideas become proven winners.

Defining growth

For us, growth is not a narrow metric but a multi-dimensional phenomenon. We seek companies capable of growing both their revenues and intrinsic value sustainably. The common thread across our holdings is a credible path to doubling in value over a five-year horizon, whether through innovation, market expansion, or superior execution. In smaller companies, that growth may be non-linear – emerging from new product adoption, operational leverage, or entrepreneurial reinvention.

Process

We see Japan differently. In a market often dominated by large, mature corporates, we focus on the overlooked and under-appreciated opportunities among smaller companies - the businesses driving Japan's next wave of innovation and growth. Our process is purpose-built to identify such companies early, to understand their potential through a structured yet flexible framework, and to back them with conviction and patience.

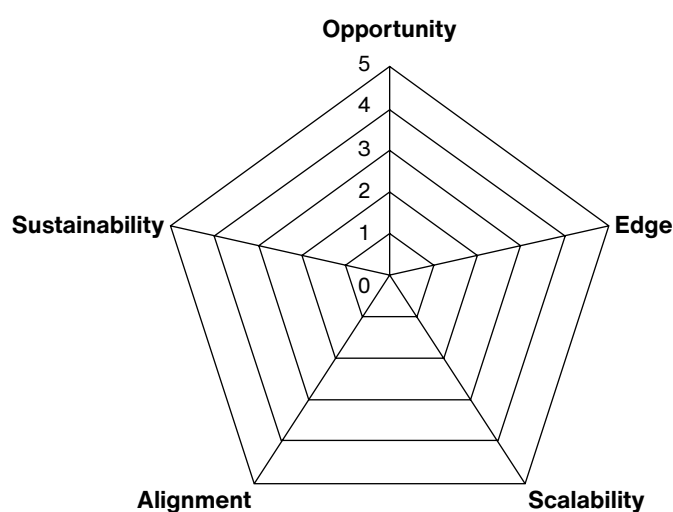
Idea generation

Idea generation is unconstrained. We draw insight from a wide network of sources - from management teams and academics to private company founders and unconventional thinkers. Within the Japanese Equities Team, we debate ideas collaboratively, guided by curiosity and conviction rather than consensus. This culture of shared ownership and long-term thinking underpins everything we do.

We look for situations where our perspective can be differentiated — where qualitative insight, long-term imagination or data-driven evidence lead us to conclusions the market has not yet priced in.

Research and debate

Companies that pique our interest are subject to our RADAR investment framework analysis, which focuses on five key areas, as detailed. This process is intended to focus attention on key fundamentals that we believe are most pertinent to delivering long-term growth. In order to make peer-to-peer comparison, we use a robust and repeatable analytical framework.



01 Opportunity

How big is the opportunity over five-to-ten years?

First, we look at the favourableness of the environment in which the company operates. We assess the scale and quality of the opportunity over a five- to ten-year horizon. This includes the company's addressable market, structural tailwinds, and potential to disrupt incumbents. We look for evidence of genuine market growth or transformation, where the company's runway is both long and underappreciated.

02 Edge

How durable/adaptable will the competitive advantage be in the long term?

We examine the company's differentiators – whether in technology, brand, culture, or business model – that allow it to create and capture value. For smaller firms, this often stems from founder ambition, nimbleness, or a unique approach to serving a niche.

03 Scalability

Can that edge translate into sustainable growth?

We consider how effectively the business model can scale without eroding its advantage or profitability. This includes operational leverage, replicability of success, and the systems or structures that enable growth. In practice, scalability often distinguishes promising ideas from genuine compounders.

04 Alignment

Are management and shareholders on the same path?

Smaller companies often have concentrated ownership and founder influence. We evaluate whether incentives, governance practices, and capital allocation align with long-term value creation. Insider ownership, succession planning, and the tone of decision-making are key considerations.

05 Sustainability

Can the company sustain growth responsibly?

We assess the company's ability to manage environmental, social, and governance factors as it scales. For many small caps, this means developing stronger governance frameworks, improving disclosure, and ensuring the business maintains its social licence to operate. Sustainability here is less about formal ESG scores and more about building durability into growth.

The Japanese Equities Team have a dedicated ESG analyst who works collaboratively with the investment managers to assess sustainability factors as part of the decision making process.

Together, these five elements form a structured yet flexible framework that encourages forward-looking debate and clarity of thought. Every investment begins with a succinct hypothesis summarising how the company scores across these dimensions, what success might look like, and where our insight differs from the market's.

Decision

A buy decision is the culmination of structured research, open debate, and conviction in the investment case. Proposals are discussed within the Japanese Equities Team, with particular focus on how the company scores across our RADAR framework and the clarity of the forward-looking hypothesis. The final decision to initiate a position, rests with the portfolio managers, guided by conviction strength, portfolio context, and alignment with the fund's long-term objectives. We only buy when we believe there is a meaningful probability of the company doubling in market cap terms over a five-year period and where the balance of opportunity versus risk is distinctly asymmetric in our favour.

Sell discipline

We maintain a continuous dialogue with each holding. A change in the fundamental drivers behind a company's RADAR assessment - whether in Opportunity, Edge, Scalability, Alignment, or Insight - will trigger review. Position sizes may also be revisited when share-price movements move a holding outside its appropriate range within our conviction-and-growth framework. We rarely sell purely on valuation grounds; our goal is to let success compound while ensuring capital remains efficiently allocated.

Growth Profiles

To help guide research focus and portfolio construction, each company is classified into one of four growth profiles:

- **Emerging Prospects (EP)** – early-stage or loss-making businesses with significant upside but high uncertainty.
- **Rapid Scalars (RS)** – companies with proven products and scalable models, growing rapidly into large addressable markets.
- **Cyclical Gainers (CG)** – structurally growing industries with cyclical characteristics where strong operators can compound through downcycles.
- **Proven Winners (PW)** – established leaders with durable advantages and long runways of compounding growth.

These classifications are dynamic and reviewed regularly as businesses evolve, serving as a natural prompt to reassess conviction and position size.

Risk

Risk management is integral to how we invest, not a separate overlay. For us, the greatest risk is the permanent loss of capital, rather than short-term volatility or deviation from an index. Managing risk begins with deep fundamental analysis and continues through ongoing monitoring, diversification, and debate.

Fundamental and Behavioural Discipline

Our first line of defence is understanding what we own and why. Each holding is subjected to thorough due diligence under the RADAR framework, ensuring we recognise both the upside potential and the conditions that could undermine it. We continuously reassess whether a company's fundamentals, competitive advantage, or alignment still support the original investment hypothesis.

Equally important is self-awareness: we use portfolio reviews and peer challenge to mitigate behavioural biases, ensuring decisions are driven by evidence and conviction rather than emotion or momentum.

Position Sizing and Diversification

We manage risk primarily through thoughtful position sizing. Each position reflects both our conviction and the uncertainty of the outcome. Smaller, higher-risk Emerging Prospect positions are held at modest weights, while larger allocations are reserved for more proven, resilient holdings. This framework helps balance the portfolio between long-term potential and capital preservation.

Growth profiles	Relative conviction		
	Base	Solid	Strong
Emerging Prospect	<0.4%	0.4–0.6%	0.6–1.5%
Rapid Scaler	0.5–1.0%	1.0–2.5%	2.5–5.0%
Cyclical Gainer	0.5–1.0%	1.0–2.5%	2.5–5.0%
Proven Winner	1.0–2.0%	2.0–3.0%	3.0%+

The portfolio typically holds 50–70 stocks, maintaining sufficient diversification without diluting conviction. We also limit exposure to any single high-risk category – for example, Emerging Prospects will not normally exceed 10% of total assets.

Liquidity and Correlation Awareness

We monitor liquidity continuously to ensure flexibility. We avoid positions where we would hold more than eight days' average trading volume at purchase, allowing us to manage client flows or changing circumstances with minimal impact. We also consider cross-holding correlations to identify unintended concentrations – whether by business model, theme, or factor exposure – and to maintain a balanced overall profile.

Independent Oversight and Risk Tools

We work closely with Baillie Gifford's Investment Risk, Analytics and Research team, whose independent perspective adds depth to our internal debate. Their analysis – covering portfolio factor exposures, scenario modelling, and decision-pattern reviews – helps us identify subtle risks and behavioural trends. We use models such as Barra, alongside our own qualitative assessment, to understand the drivers of risk without being constrained by them.

Pragmatic, Not Prescriptive

Ultimately, risk management is about judgment, not box-ticking. We accept that the pursuit of meaningful long-term outperformance requires taking differentiated views, but we seek to ensure those risks are deliberate, understood, and proportionate. We believe that this balance between conviction and prudence is essential to protecting capital and compounding it effectively over time.

People

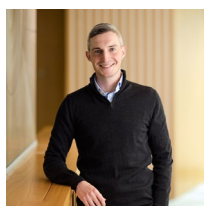
Investment team

Management of the investment portfolio is led by Brian Lum and Jared Anderson as deputy manager. All members of the Japanese Equities Team have fundamental company research as their primary responsibility, regardless of whether they are investment managers or investment analysts. This reflects Baillie Gifford's view that stock selection based on fundamental research is the main opportunity to add value. Their sector research responsibilities encompass the full range of market capitalisation, from the largest companies in a sector down to interesting small companies. Thus every team member contributes ideas to the portfolio.



Brian Lum
Investment
Manager

Brian Lum is an investment manager in the Japanese Equities Team. He is the lead manager of the Shin Nippon Investment Trust and co-manager of the Japanese Smaller Companies Fund and is also a member of the International Growth Portfolio Construction Group. Brian joined Baillie Gifford in 2006. He is a CFA Charterholder and graduated with an MSci and BA (Hons) in Physics from the University of Cambridge in 2006.



Jared Anderson
Investment
Manager

Jared Anderson is an investment manager in the Japanese Equities Team. He is co-manager of the Japanese Fund and Japanese Smaller Companies Fund, and deputy manager of the Shin Nippon Investment Trust. Jared joined Baillie Gifford in 2016. Prior to joining the firm he spent two years as an Assistant Economist at the Scottish Government. Jared graduated MA (Hons) in Economics from the University of Edinburgh in 2012.

Board liaison



Anzelem Cydzik
Client Relationship
Director

Anzelem is part of the Investment Trust Team where he has specific client responsibility for Pacific Horizon Investment Trust PLC, Baillie Gifford Shin Nippon PLC and Baillie Gifford UK Growth Trust plc. He is responsible for managing relationships with boards, shareholders and analysts and also helps with marketing and public relations for the Baillie Gifford Investment Trust range. Anzelem joined Baillie Gifford in 2000 and previously graduated BA in History & Politics.

Board

The Board has overall responsibility for the Company's affairs. A number of matters are reserved for its approval including strategy, investment policy, currency hedging, gearing, treasury matters, dividend and corporate governance policy.

The Board currently comprises of five directors, all of whom are non-executive. The executive responsibilities for investment management have been delegated to the Company's Managers and Secretaries, Baillie Gifford & Co Limited, and in the context of a board comprised entirely of non-executive directors, there is no chief executive officer. The directors believe that the board has a balance of skills and experience that enables it to provide effective leadership and proper governance of the Company.

Jamie Skinner
Chair

Jamie Skinner was appointed a director in 2018 following a period as Chair of the Audit Committee. He was appointed Chair in May 2023. Jamie is a chartered accountant and a fellow of the Chartered Institute for Securities and Investment. He joined Cazenove & Co in 1989 as a corporate finance executive working principally on investment companies and also other sector IPO activity, and in 1995 he was appointed Managing Director of the Johannesburg office. In 1999 he joined Martin Currie Investment Management Limited as a director and in 2014 was appointed Head of Client Services. He served as President and CEO of The China Fund, Inc. until 2012, President and CEO of The Taiwan Fund, Inc. until 2014 and President of the Martin Currie Business Trust until 2015. He also served on the boards of Martin Currie, Inc. and the Martin Currie Japan Absolute Return Fund up to his retirement from Martin Currie on 31 July 2018. He was a non-executive director of Ediston Property Investment Company plc from 2018 until it went into voluntary liquidation on 6 January 2024. Jamie is a non-executive director of the Asian Opportunities Absolute Return Fund Limited and Audit Chair of the Ashoka India Equity Trust plc. He is also Chairman of Finance at the Royal & Ancient Golf Club of St Andrews and is the investment trustee of the Wilson Christie Foundation.

Professor Sethu Vijayakumar

Professor Vijayakumar was appointed director in 2018. He is the Professor of Robotics at the University of Edinburgh and the (Founding) Director of the Edinburgh Centre for Robotics. He holds additional responsibility as the Programme Director for Artificial Intelligence at The Alan Turing Institute, London, where he helps shape the UK National roadmap in Robotics and Autonomous Systems. He is a world-renowned roboticist, pioneering the data driven control of several iconic robotic platforms including a recent collaboration with the NASA Johnson Space Centre on the Valkyrie humanoid robot being prepared for unmanned robotic pre-deployment missions to Mars. He is a Fellow of the Royal Society of Edinburgh, a judge on BBC Robot Wars and winner of the 2015 Tam Dalyell Prize for Excellence in engaging the public with science. Sethu has strong ties with Japan having spent seven years in Tokyo during his PhD and postdoctoral training, still closely collaborates with several R&D firms and multinationals on translational research projects and is a fluent Japanese speaker. Sethu holds the Chair of Robotics at the University of Edinburgh and is the Programme Director for AI and Robotics at the Alan Turing Institute, the UK's National Institute for AI and Data Science.

Kevin Troup

Kevin Troup was appointed to the Board in 2020 and became Chair of the Audit Committee in May 2023. Kevin qualified as a Chartered Accountant in 1993 with Coopers & Lybrand. He started his Japanese investment career with Scottish Life in 1995 later becoming Head of Japan. In 2000 he joined Martin Currie Investment Management managing Japanese Smaller Companies. In 2004 he launched two Japanese Funds, a Mid-Cap Fund and was co-manager at launch for the Daijiri Absolute Return Fund responsible for picking small cap positions. Kevin joined the Global team at Standard Life Investments in 2010 launching a new Global Equity Income product and with responsibility for Japanese investments within a Global franchise. He retired in 2018 and is now a Director at Baring Fund Managers Limited, European Assets Trust PLC, BT Pension Scheme Management Limited and Kintail Trustees Limited, the corporate trustee of The Robertson Trust charity.

Abigail Rotheroe

Abigail Rotheroe was appointed to the Board in 2022 and is chair of the Nomination Committee. Abigail is a CFA® charterholder whose investment career began at Schroder Capital Management in 1987 as an analyst on the Japanese desk. She worked in Hong Kong for Schroders and then HSBC, managing specialist Asia/Pacific equity portfolios for Japanese clients. On her return to London in 1994, she joined Threadneedle Investments with responsibility for the Threadneedle Asia Growth Fund, Threadneedle Asia and Pacific inc. Japan Growth Fund and the TIML India Fund. Since 2013 Abigail has been involved in social and impact investing and in her most recent role was Investment Director of Snowball Impact Management which she left in August 2022. Abigail is a non-executive director of Templeton Emerging Markets Investment Trust plc, HydrogenOne Capital Growth plc and Greencoat UK Wind PLC. She is an Investment Committee member/co-optee of Joseph Rowntree Charitable Trust, The Robertson Trust and a member of WHEB's Investment Advisory Committee.

Claire Finn

Claire was appointed to the Board on 1 November 2021. Claire began her career in Japan in 1995 before moving back to the UK in 1999. She worked for Tokyo Mitsubishi Bank in London from 1999 to 2001. In 2001 she joined Henderson Global Investors undertaking roles in client service and product development. In 2005 Claire joined Merrill Lynch Investment Managers (MLIM) as Vice President of Product Development. MLIM was subsequently bought by BlackRock and Claire moved into the distribution team, rising to the position of Managing Director of Defined Contributions, Unit Linked and Platforms. Claire left BlackRock in 2018 and transitioned to a portfolio career in 2019. She is currently the chair of UBS Asset Management Life Limited, and a director of The Law Debenture Corporation PLC, Octopus Apollo VCT PLC, Artemis Fund Managers Limited and Sparrows Capital Limited.

About Baillie Gifford

Baillie Gifford & Co is one of the leading privately owned investment management firms in the UK. Structured as a partnership, investment management is our sole business.

Baillie Gifford & Co is wholly owned by partners, all of whom work within the firm. We believe that the personal involvement in the business by the owners is crucial to maintaining the motivation and high standards essential to a modern investment house and maintaining a firm client focus.

A hallmark of the firm is the stability of our organisation and our commitment to continuing as an independent, private business based in Edinburgh. We are particularly proud of our low turnover of staff, both investment and administrative.

Baillie Gifford has a strong service culture. We make every effort to ensure that the service to investment trust boards and shareholders is of the highest possible standard.

Accounting and company secretarial services are provided by our in-house Investment Trust Department. This team currently provides these services to the other investment trusts managed by Baillie Gifford.

Investment Trusts and Investment Companies managed by Baillie Gifford

	Sector
Scottish Mortgage Investment Trust PLC	Global
The Monks Investment Trust PLC	Global
The Scottish American Investment Company P.L.C.	Global Equity Income
Edinburgh Worldwide Investment Trust plc	Global Smaller Companies
The Baillie Gifford Japan Trust PLC	Japan
Baillie Gifford Shin Nippon PLC	Japanese Smaller Companies
Pacific Horizon Investment Trust PLC	Asia Pacific
Baillie Gifford US Growth Trust plc	North America
Baillie Gifford UK Growth Trust plc	UK All Companies
Baillie Gifford European Growth Trust plc	Europe
Baillie Gifford China Growth Trust plc	China
The Schiehallion Fund	Growth Capital

Differentiation

We believe a number of features differentiate Baillie Gifford's investment philosophy and process:

Fundamental style

We are fundamental investors. We undertake our own research with considerable emphasis on analysing companies' financial statements and assessing management.

Long-term investment horizon

Our aim is to select good quality stocks which will outperform over the long term. When assessing a stock, we look at a company's prospects over the next five years as opposed to the next five months.

Active portfolios

Having identified good quality stocks, we look to hold them in sufficient size to have a meaningful, positive impact on performance. We back our judgement.

Team-based decision making

We operate a genuine team approach. Portfolios reflect the views and contributions of each investment team.

Stability of investment staff

Our partnership structure encourages a high degree of stability within the investment teams. We believe this ability to own part of a successful, growing business is significantly more than just a financial incentive. In addition, even at non-partner level, profits are shared across a wide base of the employees.

Continuity and repeatability

Our approach to investment has been established over many years. The consistent application of this successful philosophy and process explains our historic performance record and underpins our confidence that performance can be maintained into the future.

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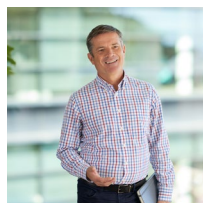
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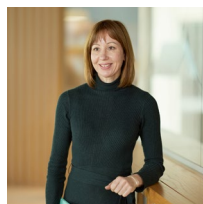
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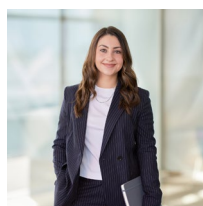
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