

Baillie Gifford Japanese Smaller Companies Fund

31 December 2024

About Baillie Gifford

Philosophy	Long-term investment horizon A growth bias Bottom-up portfolio construction High active share
Partnership	100% owned by 58 partners with average 20 years' service Ownership aligns our interests with those of our clients Enables us to take a thoughtful, long-term view in all that we do Stability, quality and consistency

Investment Proposition

We invest in attractively valued smaller companies that we believe offer good growth opportunities. Growth may come from innovative business models, disrupting traditional Japanese business practises, or market opportunities such as growth by Japanese companies outside Japan.

Fund Facts

Fund Launch Date	01 April 1983
Fund Size	£151.0m
IA Sector	Japan
Active Share	97%*
Current Annual Turnover	16%
Current number of stocks	65
Stocks (guideline range)	40-80

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

Fund Manager

Name	Years' Experience
Praveen Kumar	16

Fund Objective

To outperform (after deduction of costs) the MSCI Japan Small Cap Index, as stated in sterling, by at least 1.5% per annum over rolling five-year periods.

The manager believes this is an appropriate target given the investment policy of the Fund and the approach taken by the manager when investing. In addition, the manager believes an appropriate performance comparison for this Fund is the Investment Association Japan Sector.

There is no guarantee that this objective will be achieved over any time period and actual investment returns may differ from this objective, particularly over shorter time periods.

Periodic Performance

	3 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)
Class B-Acc (%)	-1.9	-9.9	-13.9	-6.7
Index (%)*	0.8	6.7	4.4	3.1
Target (%)**	1.2	8.2	6.0	4.7
Sector Average (%)***	1.6	8.7	3.7	5.2

Source: FE, Revolution, MSCI. Total return net of charges, in sterling.

Share class returns calculated using 10am prices, while the Index is calculated close-to-close.

Baillie Gifford operates a single swinging price for the Fund and, therefore, may apply a dilution adjustment to the price to protect long-term investors from the costs associated with buying and selling underlying investments that result from other investors joining or leaving the Fund. This adjustment will affect relative performance, either positively or negatively.

*MSCI Japan Small Cap Index (in sterling).

**MSCI Japan Small Cap Index (in sterling) plus at least 1.5% per annum over rolling five-year periods.

***IA Japan Sector.

Discrete Performance

	31/12/19- 31/12/20	31/12/20- 31/12/21	31/12/21- 31/12/22	31/12/22- 31/12/23	31/12/23- 31/12/24
Class B-Acc (%)	30.0	-14.9	-20.3	-11.3	-9.9
Index (%)*	3.5	-1.0	-0.6	7.4	6.7
Target (%)**	5.1	0.4	0.9	9.0	8.3
Sector Average (%)***	13.8	1.8	-8.1	11.6	8.7

Source: FE, Revolution, MSCI. Total return net of charges, in sterling.

Share class returns calculated using 10am prices, while the Index is calculated close-to-close.

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Market environment

As we come to the end of the year where performance has significantly lagged the Index, the macro environment continues to be the main driver of underperformance. The yen's significant depreciation has bolstered large exporters and hurt domestically focussed small caps through increased import costs. In addition, valuation compression persists, and small caps are trading at the widest discount to large caps since 2010. While this underscores that we're at an extreme point, we believe it highlights an opportunity for investors to be rewarded for their patience in investing in Japanese small caps.

Performance

Among the bottom detractors from performance were Toyo Tanso, Appier Group and Litalico.

Toyo Tanso produces high-performance speciality graphite products, primarily for semiconductors. Amid a backdrop of rising cost inputs, operating profit and revenues are growing steadily. This is driven by strong demand for its high margin Silicon Carbide (SiC) products and benefits from the weaker yen. We continue to believe the company is well placed to benefit from the proliferation of devices that use an increasing number of chips.

Appier is a Taiwanese software company listed in Japan. Its software-as-a-service products use Artificial Intelligence to help clients acquire and understand customer behaviour and automate associated business processes. Its share price declined after third-quarter results reported revenue missed estimates. Despite this, operating profit increased by 150% over the previous year and the company announced it will be paying a dividend.

Litalico, the disability welfare service provider has suffered in the short term due to changes in regulation that have resulted in lower sales in its child welfare segment. However, management has repositioned the business to make up for lost revenue and remains confident of a strong recovery. Regardless of this, the vocational welfare segment continues to perform well and is experiencing healthy sales and profit growth.

Among the top contributors to performance were WealthNavi, Cybozu and Megachips.

WealthNavi is Japan's leading digital robo-wealth management platform. Its share price has increased 60% following the news that Mitsubishi UFJ Financial Group (MUFJ) plan to acquire WealthNavi for approximately \$664 million. MUFJ

already owns a 15% stake and is now planning to make it a wholly owned subsidiary.

Cybozu creates software tools for smaller and medium-sized businesses that support team collaboration and better working practices. Its share price reacted positively to recent results, which reported a healthy increase in operating profit and an upward revision of its full-year estimates. It also recently completed a share repurchase program, buying back 2.9% of outstanding shares.

Megachips produces circuits for various use cases, including game consoles and digital cameras. Its largest customer is Nintendo, and it owns a very valuable stake in a US fabless semiconductor developer called SiTime, which designs semiconductor timing solutions. It recently announced a share buyback program and saw its shares react positively.

Notable transactions

During the quarter, we sold Amvis, Japan's leading operator of chronic and terminal care hospices. This was driven by an unexpected change in strategy from management, shifting from a high-growth model to a more sustainable growth model. Our concern is that this will lower margins over the long term and following a call with the founder, we believe that these changes are not temporary.

Market Outlook

We remain focused on identifying exceptional growth opportunities, particularly in companies driving change and benefiting from structural changes in Japan. We don't know when the market will fully appreciate the strong fundamentals of the companies in the Fund. But we do know that we're well-positioned for the rebound.

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to 31 December 2024

Stock Name	Contribution (%)
Wealthnavi	1.1
Cybozu	0.7
SWCC Showa Holdings	0.7
Megachips	0.4
GA technologies	0.4
Gift	0.4
Noritsu Koki	0.3
Katitas	0.3
eGuarantee	0.2
Nittoku	0.2
Toyo Tanso	-0.6
Amvis	-0.5
Appier Group	-0.5
Bengo4.Com	-0.4
Litalico	-0.4
Cosmos Pharmaceutical	-0.4
Global Security Experts	-0.3
Nakanishi	-0.3
Jade Group	-0.3
Seria	-0.2

One Year to 31 December 2024

Stock Name	Contribution (%)
SWCC Showa Holdings	1.7
Lifenet Insurance	1.0
Noritsu Koki	0.9
Yonex	0.8
Kohoku Kogyo	0.7
Cybozu	0.5
Megachips	0.4
Gift	0.4
Peptidream	0.4
MonotaRO	0.3
Litalico	-1.6
Bengo4.Com	-1.2
GMO Financial Gate	-1.2
Cosmos Pharmaceutical	-1.0
Infomart	-0.9
SpiderPlus	-0.8
Fujikura	-0.8
Asahi Intecc	-0.8
SIIX Corp	-0.7
Enechange	-0.6

Source: Revolution, MSCI. Baillie Gifford Japanese Smaller Companies Fund relative to MSCI Japan Small Cap Index (in sterling).

Some stocks may only have been held for part of the 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. See the List of Holdings section of this report for the stocks held.

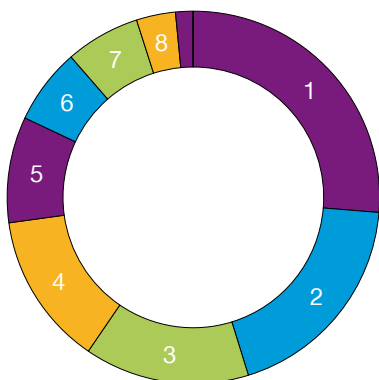
Transactions from 01 October 2024 to 31 December 2024.

There were no new purchases during the period.

Complete Sales

Stock Name	Transaction Rationale
Amvis Holdings, Inc. Com Stk	<p>Amvis is Japan's leading operator of chronic and terminal care hospices. It addresses a growing need represented by an ageing society, growing cancer rates, rising hospital service costs, and longer hospital stays. One of its industry peers, Sunwels, recently faced allegations of improper billing of vulnerable patients. While this problem was specific to Sunwels and had nothing to do with Amvis, the ensuing media and customer scrutiny of the entire sector has taken an immense toll on nurses and caregivers, leading to mental health issues in many cases. In response, Amvis management have decided to change strategy, shifting from a high growth model to a more sustainable growth model. What this means in practice is a meaningful rise in costs leading to lower long-term margins. Following a call with the founder, we got the impression that these changes were not temporary but structural in nature. As a result, we feel the risk/ reward profile of Amvis has changed significantly. We also cannot rule out any adverse regulatory changes in future as a result of the Sunwels scandal. In view of all this, we have decided to sell the entire holding.</p>

Sector Exposure



	%	
1	Industrials	26.3
2	Information Technology	18.9
3	Consumer Discretionary	14.3
4	Financials	13.3
5	Communication Services	9.2
6	Health Care	6.6
7	Consumer Staples	6.5
8	Real Estate	3.4
9	Materials	1.5
10	Cash	0.0

As well as cash in the bank, the cash balance includes unsettled cash flows arising from both shareholder flows and outstanding trades. Therefore, a negative balance may arise from timing differences between shareholder flows and security trading, and does not necessarily represent a bank overdraft.

Top Ten Holdings

Stock Name	Description of Business	% of Portfolio
Lifenet Insurance	Provides a range of life insurance products and services.	3.6
KATITAS	Real estate services	3.4
Nifco	Value-added plastic car parts	3.3
Yonex	Sporting goods	3.0
SWCC Corporation	Japan-based holding company mainly engaged in the electrical wire rod business	3.0
MegaChips	Electronic components	2.9
WealthNavi	Operates a wealth management platform	2.9
JEOL	Manufacturer of scientific equipment	2.8
Cosmos Pharmaceutical	Drug store chain	2.6
Noritsu Koki	Holding company with interests in biotech and agricultural products	2.5
Total		29.8

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	8	Companies	None	Companies	None
Resolutions	62	Resolutions	None	Resolutions	None

Company Engagement

Engagement Type	Company
Environmental	Demae-Can Co.,Ltd, Seria Co., Ltd., Shoei Co., Ltd.
Social	KH Neochem Co., Ltd., SWCC Corporation
Governance	CellSource Co., Ltd., Demae-Can Co.,Ltd, GMO Financial Gate, Inc., GMO Payment Gateway, Inc., Raksul Inc., SWCC Corporation, Seria Co., Ltd., Shoei Co., Ltd.
Strategy	CellSource Co., Ltd., KH Neochem Co., Ltd., SWCC Corporation

For further details on company engagement please contact us. You can also find further information on how we integrate environmental, social and governance (ESG) matters into our investment approach, [here](#).

Asset Name	Fund %	Asset Name	Fund %
Lifenet Insurance	3.6	SpiderPlus	0.9
KATITAS	3.4	SIIX	0.9
Nifco	3.3	MonotaRO	0.8
Yonex	3.0	LITALICO	0.8
SWCC Corporation	3.0	Horiba	0.8
MegaChips	2.9	istyle	0.8
WealthNavi	2.9	Jade Group Inc	0.6
JEOL	2.8	Kumiai Chemical Industry	0.6
Cosmos Pharmaceutical	2.6	Soracom Inc	0.5
Noritsu Koki	2.5	Weathernews	0.4
RakSul	2.5	Iriso Electronics	0.4
Nakanishi	2.4	CellSource	0.4
Anicom	2.4	Torex Semiconductor	0.1
Avex Inc.	2.3	Shima Seiki Mfg.	0.1
Cybozu	2.3	Demae-Can	0.0
GA Technologies	2.3	Nippon Ceramic	0.0
PeptiDream	2.2	Cash	0.0
Appier Group	2.1	Total	100.0
Gift Holdings Inc	2.1		
Tsugami	2.0		
Infomart	2.0		
GMO Financial Gate	1.9		
Kohoku Kogyo	1.9		
Vector	1.9		
INFORICH	1.8		
Nittoku	1.8		
Harmonic Drive Systems	1.7		
Asahi Intecc	1.6		
Sho-Bond Holdings	1.5		
Toyo Tanso	1.5		
Optex	1.5		
I-ne	1.4		
eGuarantee	1.4		
Oisix	1.3		
OSG	1.3		
Global Security Experts Inc.	1.2		
TechnoPro	1.2		
Nikkiso	1.2		
oRo	1.2		
MatsukiyoCocokara	1.2		
Bengo4.com	1.2		
GMO Payment Gateway	1.1		
CrowdWorks	1.0		
Anest Iwata	1.0		
Kamakura Shinsho	1.0		
Seria	1.0		
KH Neochem	0.9		
Shoei	0.9		
Kitz	0.9		

Please note the fund information contained within this document is proprietary information and should be maintained as such and not disseminated. The content is intended for information purposes only and should not be disclosed to other third parties or used for the purposes of market timing or seeking to gain an unfair advantage.

Share Class	Share Class Inception Date	ISIN	SEDOL	Annual Management Fee (%)	Ongoing Charge Figure (%)
Class B-Acc	02 September 1999	GB0006014921	0601492	0.60	0.67
Class B-Inc	01 April 1983	GB0006014582	0601458	0.60	0.67

The table displays the primary shares classes. Other share classes may be available for those investors who have a separate arrangement. Charges will reduce the value of your investment. Please refer to the Prospectus and Key Investor Information Document for further details. The Ongoing Charges Figure ('OCF') may be lower than previous declarations as a result of a revision to how the indirect fees associated with closed-ended investment companies need to be shown. This does not necessarily mean that fund expenses have gone down rather that we have reverted to how they have been calculated until 30 June 2022 to reflect the revised Investment Association's Guidance on Disclosure of Fund Charges and Costs (July 2020, updated January 2022, revised November 2023). A more detailed Costs and Charges disclosure is available upon request.

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Additional Geographical Location Information

Israel: This Report, as well as investment in the Fund described herein, is directed at and intended for Investors that fall within at least one category in each of: (1) the First Schedule of the Israeli Securities Law, 1968 (“Sophisticated Investors”); and (2) the First Schedule of the Investment Advice Law (“Qualified Clients”).

The Fund’s share price can be volatile due to movements in the prices of the underlying holdings and the basis on which the Fund is priced.

As with any investment, the clients’ capital is at risk. Past performance is not a guide to future returns.

Throughout the report all figures are rounded, so any totals may not sum. Not all stocks mentioned may be held by the portfolio.

All information as at 31 December 2024 and source is Baillie Gifford & Co unless otherwise stated.

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