



Baillie Gifford Japan (BGFD)

Strong stock selection and a supportive backdrop have seen BGFD outpace its benchmark this year.

Overview

Update
08 December 2025

Baillie Gifford Japan (BGFD) exemplifies a high-conviction, fundamentals-led approach to investing in Japanese equities. The trust is managed by Matthew Brett, supported by Baillie Gifford's ten-strong Japan team, and aims to deliver long-term capital growth through a focussed portfolio of companies with structural growth potential, strong competitive advantages and robust balance sheets.

The past 12 months have been a reminder of BGFD's **Performance** potential in a supportive market backdrop. The trust has delivered a NAV total return of 19.1% to 30/11/2025 and a 23.6% share price return, ahead of the TOPIX's 16.3%, driven largely by strong stock selection in areas such as AI, digitalisation and gaming. With investors growing wary of elevated US tech valuations, BGFD offers an alternative: discounted exposure to Japan's growing strength in advanced manufacturing, semiconductor infrastructure and digital innovation.

This pace of returns has offered investors a glimpse of what the strategy can deliver when growth and quality are in favour, reminiscent of periods prior to 2021 when BGFD consistently outperformed in similarly supportive conditions. But it's important to remember that performance has been affected by style headwinds over much of the last four years, where value-oriented sectors outperformed growth.

During market corrections over the year, Matthew has also taken the chance to add several quality companies to the **Portfolio** at much more attractive valuations. New positions over the year include Money Forward, added for its growing revenues and expanding margins, alongside Square Enix and Sega Sammy, two businesses the manager believes have meaningful monetisation potential, aligned with the structural growth in gaming and digital entertainment. To fund these new opportunities, several positions were sold over the year, including Topcon, which was acquired by private equity at a substantial premium.

BGFD's shares trade on a **Discount** to NAV of 10.0% at the time of writing, wider than its five-year average of 6.8%.

Analyst's View

We think the backdrop for Japanese equities is increasingly supportive. Inflation has replaced deflation; interest rates have turned positive, and the yen appears to be stabilising. At the same time, NISA expansion is encouraging growing domestic equity inflows, and corporate governance reforms continue to unlock value. Whilst valuations have risen, they remain attractive relative to other developed markets.

This environment could be particularly favourable for BGFD's high-conviction, growth-focussed strategy. Companies with strong fundamentals, competitive advantages and structural growth potential have been able to capitalise on these improving conditions, supporting a turnaround in performance this year. Importantly, the beneficiaries of corporate reform are also broadening, another tailwind for the trust.

Early reform-related improvements primarily helped companies falling below TSE thresholds for price-to-book and ROE, areas where BGFD has historically had limited exposure. Whilst these companies continue to re-rate, higher-quality growth businesses, the focus of BGFD, are now also actively redeploying their cash-rich balance sheets. Even where TSE requirements are already met, these companies are investing internally, pursuing acquisitions and enhancing shareholder returns through buybacks and dividends, having recognised the tangible improvements across the market. This proactive approach has supported stronger valuations, sustainable growth and a richer opportunity set for active managers.

That said, BGFD remains exposed to style headwinds and could lag if value outperforms. Broader risks, including trade tensions and political developments, may also influence sentiment and keep the trust's discount wide. However, against this supportive backdrop, and following a meaningful uptick in returns this year, BGFD's current discount represents a potential opportunity for investors seeking high-growth exposure in Japan, with further tightening possible if performance continues and geopolitical or trade concerns ease.

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BULL

Strong long-term track record

Highly active approach which brings outperformance potential

Low OCF relative to peers

BEAR

Active share increases underperformance potential as well as outperformance

Gearing can amplify losses on the downside and volatility

Economic conditions could lead to the growth style remaining out of favour



Portfolio

Baillie Gifford Japan (BGFD) is managed by Matthew Brett, a Baillie Gifford partner with over two decades of experience managing Japanese equities, supported by Baillie Gifford's wider Japan team (see **Management**). Over this time, he has honed a process firmly rooted in bottom-up stock selection, focussing on the fundamentals of individual businesses and targeting what he views as Japan's most compelling growth opportunities. This typically leads to investments in companies with strong sales and profit growth prospects, aiming to deliver at least 100% total return from each holding over rolling five-year periods.

Whilst BGFD is primarily a growth strategy, Matthew's approach is not growth at any price. The process targets well-managed businesses with competitive strengths and scalable models, but at relatively attractive valuations. Both he and the team remain flexible, investing in businesses at a range of growth stages, including some more cyclical growth names that aren't traditionally associated with high-growth strategies. The portfolio can be grouped into four segments, though this segmentation is not a target allocation, but rather an outcome of the stock selection process:

- **Secular Growth:** Companies with high-growth potential
- **Growth Stalwart:** Steady compounders with durable earnings profiles
- **Special Situations:** Undervalued or misunderstood businesses trading on a low share price that the managers don't believe reflects their true worth
- **Cyclical Growth:** High compounding growth companies that are more sensitive to changes in the health of the economy, expected to wax and wane over a business cycle

Instead of hugging the index, Matthew focusses on owning what he believes are the exceptional businesses that are shaping Japan's economic future. The trust therefore has a high active share and low turnover, reflecting his belief that conviction takes time to materialise, and is concentrated with its top ten positions making up 41% of the portfolio. Matthew believes that opportunities rarely mirror the entire index; real progress, growth and innovation come from companies driving Japan forward, building value consistently over time rather than simply following the market curve.

Despite these beliefs, Matthew and the team are flexible, adapting quickly to identify newly emerging opportunities. Over the past year, the confluence of market tailwinds has broadened the opportunity set, giving way to deeper structural shifts, driven by digitalisation, stronger Asian consumption and accelerating monetisation of gaming and IP assets. These themes have featured prominently in recent portfolio activity.

Digitalisation and AI exposure is anchored by a number of holdings, but the largest position is in SoftBank Group at 8.1% as of the latest factsheet. SoftBank offers access to a diverse portfolio of AI innovations, including stakes in OpenAI and Arm Holdings, a global semiconductor designer that's addressing AI's energy bottleneck. Softbank always offered access to attractive underlying assets at a share price that implied a discount, but the team tell us that the strong performance over the past year means the discount has eroded. This and concerns about managing a very large position prompted some profit-taking. Some of the proceeds were allocated to a new holding, Money Forward, added for its compelling combination of growth and comparatively low valuation. As Japan's leading SaaS fintech platform, it is growing revenues at 30%+ annually and expanding margins, supported by a strong brand, network effects and exposure to an underpenetrated segment of the market.

Gaming has been a notable area of change, with two new additions: Square Enix, owner of the Final Fantasy franchise, and Sega Sammy, which is leveraging strong global IP, including Sonic, Persona and Angry Birds, across mobile, gaming and broader digital entertainment. Both businesses have solid balance sheets and meaningful monetisation potential, aligned with the structural growth in digital entertainment. Given their attractive valuations, Matthew took advantage to add two high-quality stocks with meaningful long-term potential to the portfolio.

Regarding rising consumption trends, Shimano was also added. It's a manufacturer of high-end bicycle components, and has benefitting from recent growing demand, notably through electrification trends in Europe and China. Matthew also notes that the company has successfully navigated previous inventory cycles, retains long-term margins in the mid-20% range and holds ¥530bn of cash (around 30% of market cap). Whilst he previously sold it during COVID due to inflated demand, he believes the correction has restored an attractive entry point.

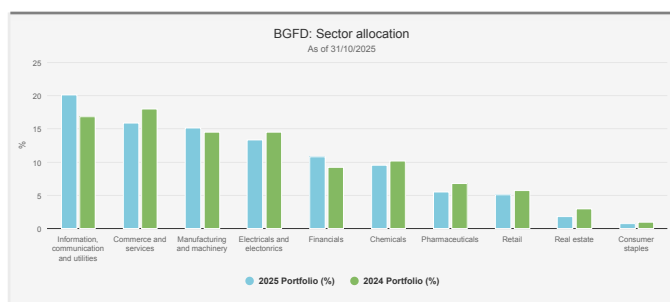
To fund these new opportunities, several positions were sold over the year. Topcon was acquired by private equity at a substantial premium, prompting some profit-taking from the team. On similar grounds, SWCC Corporation had delivered exceptional returns and was sold due to its sharp re-rating, limiting further upside. Aside from strong performance, Tokyo Tatemono was exited in favour of GA Technologies, where the team sees greater long-term potential in online real estate.

From a sector perspective, these changes haven't altered much, although the trust's longstanding overweight in IT and communication-related sectors has increased, reflecting new positions aligned with Japan's growing digitalisation and AI trends. Aside from that, it continues to run underweights in financials and manufacturing, where



fewer companies meet Matthew's quality, valuation, and growth criteria.

Fig.1: Sector Allocation



Source: Baillie Gifford

Whilst the backdrop for Japan is structurally improving, there remain a few lingering concerns that may help explain BGFD's wider-than-average **Discount**. Trade tensions are one source, with Japan initially facing higher-than-expected tariffs before the final agreement reduced them from 25% to 15%. Although key sectors such as autos were ultimately protected, the episode reinforced perceptions of vulnerability to external policy shocks. Domestic politics also remain a watch point. The new prime minister's popularity and explicit pro-reform stance have boosted sentiment, but many investors appear to be waiting for tangible delivery on fiscal and structural reforms before committing greater capital. Finally, Japan's export-led economy and dependence on global demand mean it remains sensitive to broader shifts in monetary policy, equity volatility and Asian growth narratives, factors which tend to magnify inflow and outflow patterns.

However, we think that caution is increasingly at odds with the underlying fundamentals. Inflation has replaced deflation, interest rates have turned positive and the yen has been relatively stable, a healthier macro backdrop than Japan has seen in decades. Corporate governance reform continues to unlock value, whilst the expansion of NISA tax-free investment accounts is encouraging a growing pool of domestic equity inflows. Meanwhile, Japanese valuations remain attractive relative to other developed markets, despite improving earnings visibility.

In this context, we think BGFD's current discount looks increasingly interesting. Despite strong performance over the past year, the trust trades at a c. 10.0% discount, wider than both its sector and five-year averages. With sentiment improving and structural reforms gaining traction, we believe this could provide an appealing entry point.

Crucially, the growth prospects are not just thematic or macro-led, but visible within BGFD's underlying portfolio. Whilst the trust trades at a modest premium to the market on a one-year forward price-to-book basis, this is somewhat justified by meaningfully stronger forward

growth characteristics. BGFD's portfolio demonstrates higher three-year sales and earnings growth forecasts than the TOPIX index, alongside superior gross profit margins, indicating stronger pricing power. At the same time, its underlying portfolio companies carry lower average debt levels, reinforcing financial resilience. In our view, this combination of quality, growth and balance sheet strength, coupled with a wider-than-average discount, makes BGFD's proposition increasingly attractive in the current environment.

Portfolio Characteristics

	PORTFOLIO	TOPIX
Price to Earnings 1Y Forward (x)	15.2	14.9
Sales 3Y Forward Growth pa (%)	17.1	17.6
Earnings 3Y Forward Growth pa (%)	11.7	9.1
Gross profit margin (%)	37.1	25
Net debt to equity (x)	0	0.3

Source: Baillie Gifford, as of 30/09/2025

Gearing

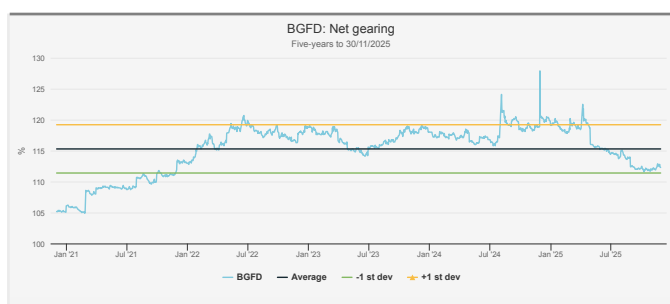
BGFD has operated with elevated gearing for much of the past five years, with net gearing consistently above its long-term average from early 2022 to late 2024. This reflected the managers' conviction and the fact that the trust was close to fully invested, including its debt facilities, during a period of strong market recovery. More recently, gearing has moderated organically, partly due to market appreciation, and now stands at around 12%.

Whilst the manager is responsible for determining the level of gearing, it is regularly discussed with the board, particularly in the context of market conditions and long-term return prospects. Both share a constructive view on Japan's growth opportunity, especially among companies aligned with secular change that remain underappreciated. Reflecting this conviction, the current gearing level of c. 12% is seen as providing healthy exposure to further share price appreciation whilst retaining flexibility to add to positions should short-term setbacks create attractive entry points. Historically, Matthew has preferred maintaining higher net exposure rather than offsetting market sensitivity through cash.

During the year, the board secured a new ¥15bn revolving credit facility and used the proceeds to repay the ¥15bn term loan that matured the same month. Several older facilities expired, including a ¥9.3bn seven-year loan in November 2024 and a ¥15bn two-year facility in August 2025. The trust continues to hold three long-dated private placements with Canada Life, maturing in 2029, 2034 and 2038, with a blended average interest rate of just 2.05%.



Fig.2: Gearing



Source: Morningstar

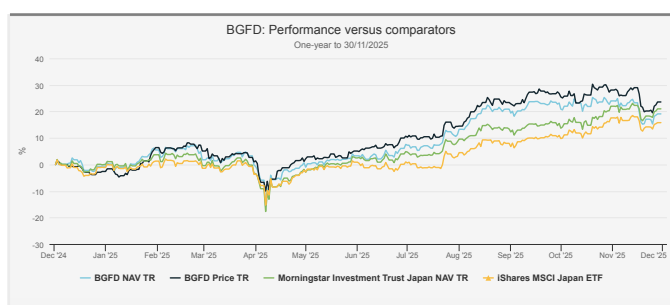
Performance

The past 12 months have marked a strong recovery for BGFD, with a NAV total return of 19.1% to 30/11/2025 and a 23.6% share price return, ahead of the TOPIX's 16.3%. This marks a meaningful recovery after several challenging years.

Stock selection was the key driver, with the trust's largest holding, SoftBank Group, the standout performer, rallying almost 120% from June 2025 as investor focus sharpened on its embedded AI exposure through Arm Holdings, OpenAI and major infrastructure projects such as the \$500bn 'Stargate' venture. Whilst shares have since eased after SoftBank disclosed the sale of its \$5.8bn NVIDIA stake, the prior sharp re-rating prompted the manager to trim the position and crystallise some gains.

SBI Holdings, the trust's second-largest position, also contributed strongly as its evolution from an online brokerage to a diversified financial conglomerate gained momentum. The integration of Shinsei Bank, acquired in 2021, has been transformative, with deposits doubling and banking now accounting for more than half of group profits, laying the foundations for a potential partial re-listing at a significant premium. Elsewhere, CyberAgent, GMO Internet and GA Technologies delivered steady progress, whilst Topcon benefitted from a takeover offer at a substantial premium.

Fig.3: One-Year Performance



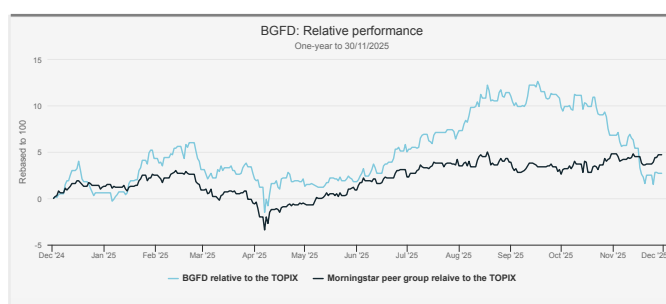
Source: Morningstar

Past performance is not a reliable indicator of future results.

Conversely, detractors included a few select defensive consumer names such as Calbee and Unicharm. Calbee experienced input cost pressures, climate-related supply challenges and a rotation away from low-growth staples, whilst Unicharm faced softer Asian demand, higher automation and ESG-related costs, alongside currency headwinds. Both also suffered from the broader market shift in favour of tech and industrials stocks.

The next chart compares BGFD's return relative to the benchmark and also the Morningstar Japan peer group to that same benchmark. We think it does a good job in highlighting the strength of BGFD's returns to the end of October, although the relative gap has moderated in the past month, amid rising trade tensions and escalating tariff concerns.

Fig.4: Relative Performance



Source: Morningstar

Past performance is not a reliable indicator of future results.

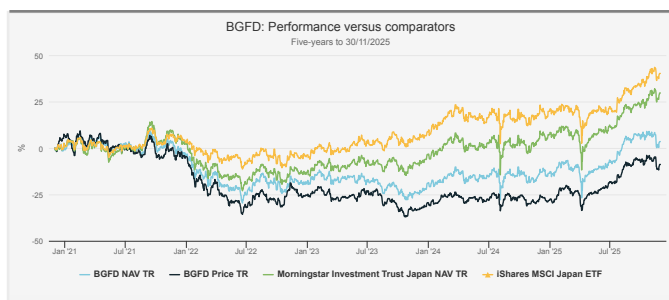
The nature of the strategy means performance has historically been sensitive to style dynamics. Over the last four years, value — led by financials and more cyclical businesses — has significantly outperformed growth, where BGFD has had limited exposure. Early phases of corporate governance reform also favoured low book value, asset-heavy companies, again areas BGFD typically avoids. These factors weighed heavily on longer-term returns, with the trust delivering a five-year NAV total return of 3.5%, compared with 42.2% for the TOPIX.

However, the recent recovery in performance is reminiscent of the stronger periods before these headwinds — notably 2017, 2019 and 2020 — when growth, innovation and quality characteristics were in favour. BGFD, in this environment, performed exceptionally, including a near 20 percentage-point outperformance of the index in 2017. In our view, the improving backdrop has the potential to support a similar environment. Inflation has replaced deflation, interest rates have turned positive and the yen has been relatively stable, a shift that tends to favour the globally facing, innovative and capital-efficient businesses that Matthew targets. Governance reforms, which initially lifted more cyclical or value-oriented companies, are now increasingly benefitting higher-growth businesses as they deploy cash more effectively, improve capital discipline



and reinvest for growth. Against this backdrop, BGFD could continue to perform well, meaning that its current wider-than-average **Discount** could present an attractive opportunity for investors to gain exposure to Japan's high growth and innovative culture.

Fig.5: Five-Year Performance



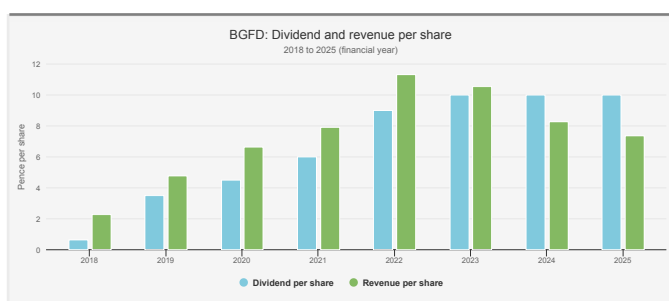
Source: Morningstar

Past performance is not a reliable indicator of future results.

Dividend

BGFD's primary objective is capital growth, and in line with this, management charges are allocated to the income account, naturally reducing the funds available for distribution as dividends. The trust pays a single annual dividend, and for the 2025 financial year, the board has recommended it be held at 10p per share for a third consecutive year. This represents a historic yield of 1.1% based on the current share price. Revenue per share declined from 8.2p to 7.32p over the year, meaning the dividend is not fully covered by current earnings. However, the trust's revenue reserve stands at approximately 1.9x the proposed 2025 distribution, providing capacity to support future payments. Additionally, the board retains the ability to draw on capital reserves if needed, offering further flexibility should it wish to maintain or grow the dividend.

Fig.6: DPS & EPS



Source: Baillie Gifford

Management

BGFD is led by Matthew Brett, a Baillie Gifford partner who has spent his entire 21-year career at the firm. He joined the Japan team in 2003, became BGFD's co-manager in 2008 alongside Sarah Whitley, and assumed full lead-manager responsibilities when she retired in 2018. His long tenure and deep familiarity with the firm's culture are reflected in BGFD's consistent adherence to Baillie Gifford's long-term, research-led investment philosophy. Matthew also co-manages the Japanese Income Growth Fund, but we think there is a strong alignment in philosophy, process and holdings across these strategies, keeping his responsibilities focussed and manageable.

Following Praveen Kumar's departure from the firm earlier this year, Matthew now manages BGFD solely but continues to be supported by Baillie Gifford's wider Japan team. This includes a ten-strong group of investment managers and analysts, a dedicated Japan-focused ESG analyst, plus two Tokyo-based research consultants who provide on-the-ground insight. Baillie Gifford's partnership structure underpins this collaborative and long-term-oriented culture by removing incentives to chase short-term trends.

Discount

At the time of writing, BGFD trades at a discount of 10.0%, compared with its five-year average of 6.8%. Whilst the discount has narrowed markedly from the c. 16% at the start of the year, we believe there is scope for further tightening. BGFD has delivered strong **Performance** over the past 12 months, and if this momentum continues, it could provide further support for the discount to narrow.

The backdrop, we think, has also become increasingly supportive for quality-oriented, growth strategies like BGFD's. Inflation has replaced deflation, interest rates have turned positive, the yen appears to be stabilising and domestic businesses, those less exposed to global trade frictions, are demonstrating resilient earnings. Whilst the early phases of corporate reform initially favoured more cyclical and value-driven areas of the market, where BGFD has less exposure, progress is now broadening.

Notably, this has become a recurring theme among several managers investing in Japan, who are observing that a growing number of higher-growth businesses, including some held in BGFD's portfolio, are beginning to mirror the successful reform behaviours of early adopters. These companies are now redeploying cash-rich balance sheets more effectively, improving capital efficiency, reinvesting for growth and returning more capital to shareholders. In our view, these behaviours are increasingly being

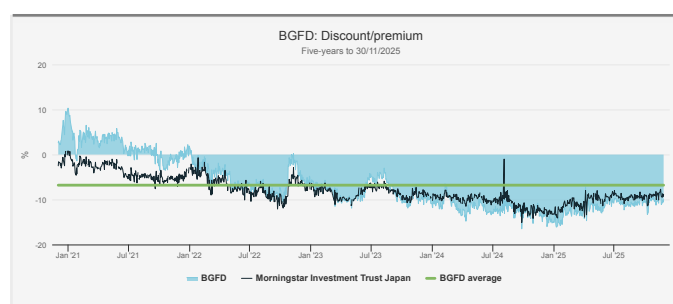


recognised and rewarded by the market, reinforcing a supportive environment for BGFD's style.

However, several factors may explain why, despite stronger recent performance, the discount still sits wider than its long-term average. We argue that there is some lingering investor caution around the sustainability of this performance turnaround after several years of style headwinds, during which the trust lagged the index meaningfully over five years as growth struggled against value. Broader macro uncertainty may also be playing a role. Although the final US–Japan trade deal lowered tariffs from 25% to 15%, and for protected key sectors such as autos, the prolonged negotiations could have weighed on confidence, leaving some investors wary of future trade frictions. Domestic politics, too, presents a nuanced picture: whilst the new prime minister's popularity and pro-reform stance have bolstered optimism, nothing is concrete, perhaps leaving many investors on the sidelines, waiting for tangible fiscal and structural outcomes before committing fresh capital.

These dynamics are likely to influence both investor sentiment and the trust's discount moving forward, but if the backdrop remains supportive, sentiment continues to improve, and performance remains robust, we think there is room for BGFD's discount to narrow further.

Fig.7: Discount



Source: Morningstar

The board remains mindful of the persistent discount and has continued to actively buy back shares. During the latest financial year to August 2025, 11.5% of the issued share capital was repurchased, with a further 1.5% bought back since up to 02/12/2025. The trust also holds an annual continuation vote, with the next due in December 2025.

Charges

BGFD's ongoing charges figure (OCF) is 0.71%, as of August 2025, comparing favourably to the 0.81% average for the AIC Japan sector. These charges are also reflected in the trust's NAV rather than deducted from the share price. The OCF includes a tiered management fee of 0.65% on the

first £250m of net assets and 0.55% on assets above this, calculated and payable quarterly. All fees are charged to revenue, reflecting the trust's growth focus. There is no performance fee.

ESG

ESG is fully integrated into BGFD's research framework, with every investment case incorporating a structured review of material ESG issues alongside its growth potential, competitive advantage and financial strength. The Japan team works closely with a dedicated Japan ESG analyst, supported further by Baillie Gifford's wider stewardship specialists, who draw on deeper assessments of voting, regulation and data, alongside on-the-ground research insight from Tokyo. This gives the team the flexibility to focus on the issues most relevant to each business model.

The approach is engagement-led rather than exclusionary, aiming to support companies and their management in enhancing governance standards, alongside capital allocation and sustainability practices, in turn, strengthening the long-term resilience of the business and shareholder returns. Lead manager Matthew Brett's experience in sustainability-focussed strategies further reinforces this philosophy. As of October 2025, Morningstar scored BGFD three out of five globes for sustainability among Japanese equity open- and closed-ended funds.



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