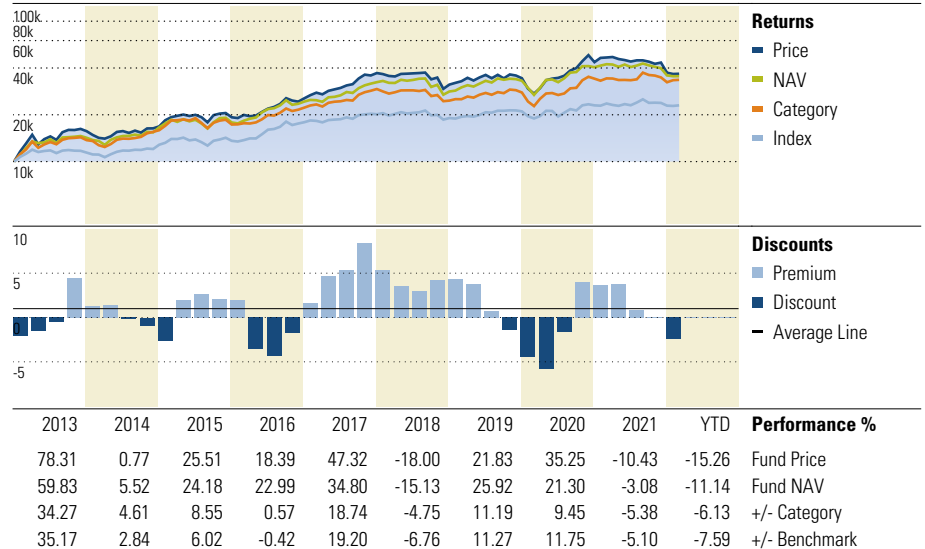


# Baillie Gifford Japan Ord BGFJ

Morningstar Rating™  
★★★★Morningstar Analyst Rating  
Bronze  
6/02/21 15:08  
UTC-0500**Morningstar Benchmark** TOPIX TR JPY  
**Morningstar Category™** Japan Large-Cap Equity

|                                       |            |
|---------------------------------------|------------|
| Last Closing Price GBP                | 7.68       |
| Last Closing NAV GBP                  | 7.96       |
| Discount/Premium %                    | -3.56      |
| Latest Published NAV                  | 7.96       |
| Latest Published NAV Date             | 12/04/2022 |
| Traded Currency                       | GBP        |
| Yield                                 | 0.78       |
| Dividend Frequency                    | Annually   |
| Total Assets £ Mil                    | 883.5      |
| Net Assets £ Mil                      | 751.2      |
| Market Cap £ Mil                      | 724.4      |
| Net Gearing %                         | 16.35      |
| Avg Daily Shares Traded Mil (3 month) | 0.17       |
| Inception Date                        | 01/12/1981 |

**Morningstar Analyst:** Lena Tsymbaluk, Analyst

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**Executive Summary**

**People:** Matthew Brett is the manager here, supported by Praveen Kumar and a well-resourced, collegial team that is Above Average, in our opinion.

**Parent:** An exemplary steward.

**Board:** The board exhibits a good combination of backgrounds, tenures, and experience.

**Process:** The team looks for companies across the market-cap spectrum that generate sustainable sales growth in excess of market expectations over the long term. The collegial process has been diligently followed and leads to an Above Average pillar rating.

**Performance:** Solid returns over the new managers' tenure.

**Fees:** The charges are competitive within its peer group. The structure is tiered, which we feel is an effective way of passing on economies of scale to investors as assets increase.

**Role in Portfolio**

**Niche.** Investors should be aware that whilst the trust offers investors Japanese equity exposure, the multi-cap nature and focus on high-growth companies can lead to materially divergent and potentially more-volatile returns than those from the benchmark or more-core Japanese equity offerings.

## Morningstar Opinion

02 Jun 2021 | Baillie Gifford Japan Ord benefits from an experienced duo and a strong collegiate approach, helping it retain a Morningstar Analyst Rating of Bronze.

Following Sarah Whitley's retirement in April 2018, Matthew Brett was appointed lead fund manager and Praveen Kumar his deputy. Brett has 17 years' experience and has a solid track record of over 13 years on a similarly managed Baillie Gifford Japan OEIC. He was also Whitley's backup on this trust for many years and had attended every board meeting here since 2008, so he knew the strategy inside out. Kumar is a lead manager on the small-cap trust Baillie Gifford Shin Nippon, and his ideas from that space can make it into this portfolio. Further, the strategy applies a collegiate approach to investing, with ideas drawn from across the Japan equities team, consisting of nine investment professionals. All team members have research responsibilities across a number of sectors covering 150 stocks.

The board comprises five members. All are independent and bring extensive commercial and investment experience. Following the retirement of Nick Bannerman in December 2019, Keith Falconer took over chairmanship of the board.

This strategy is all-cap, addressing the lack of sell-side analyst coverage lower down the market cap. The approach is benchmark-agnostic, focusing on identifying underappreciated long-term growth. The team assesses five factors in stocks: industry background, competitive

advantage, financial strength, management, and valuation. They like investing alongside founder/owners, and innovative, dynamic, and committed management is a key attribute.

The portfolio typically consists of 40-70 names. The team assigns portfolio holdings to four distinct buckets: Secular growth as at April 2021 was 43% of assets, growth stalwarts 8%, special situations 18%, and cyclical growth 22%. Secular growth stocks remain the core of the portfolio as those are the businesses that they believe have the highest potential growth. Most of the Internet businesses, factory automation, and emerging healthcare stocks sit within this group.

The patient approach is reflected in very low portfolio turnover, which is typically below 20%. The focus on mid- and small caps together with stock fundamentals lead to a portfolio with high active share around 85% versus the Tokyo Stock Price Index and the Russell/Nomura Mid Cap Growth Index.

Since the managers took over in April 2018 through 30 April 2021, the trust returned 9.2% per year compared with the TOPIX's 5.2% return. In 2020, it was ahead of the TOPIX, benefiting from exposure to quality growth names such as SoftBank, CyberAgent, Systemex, and GMO Internet.

Given that the strategy's style is geared toward growth, it is expected to do well when the market pays attention to earnings growth, while the strategy is likely to underperform when quality growth companies are out of favour.

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|              | 2020 | 2021 | 2022 |
|--------------|------|------|------|
| Gold         |      |      |      |
| Silver       |      |      |      |
| Bronze       |      |      |      |
| Neutral      |      |      |      |
| Negative     |      |      |      |
| Under Review |      |      |      |
| Not Ratable  |      |      |      |

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The date shown next to the Morningstar Analyst Rating is the date on which Morningstar Manager Research Analyst assigned or reaffirmed the current rating for the fund based on the analyst's latest review and research report for the fund.

## The Five (5) Pillars

Morningstar has identified five key areas that we believe are crucial to predicting the future success of funds: People, Parent, Process, Performance, and Price. Each pillar is evaluated when assessing a fund as well as the interaction between the pillars, which we believe is crucial to understanding a fund's overall merit.

### People

The overall quality of a fund's investment team is a significant key to its ability to deliver superior performance relative to its benchmark and/or peers. Evaluating a fund's investment team requires that analysts assess several relevant items including how key decisions are made.

### Parent

We believe the parent organization is of utmost importance in evaluating funds. The fund's management set the tone for key elements of our evaluation, including capacity management, risk management, recruitment and retention of talent, and incentive pay. Beyond these operational areas, we prefer firms that have a culture of stewardship and put investors first to those that are too heavily weighted to salesmanship.

### Process

We look for funds with a performance objective and investment process (for both security selection and portfolio construction) that is sensible, clearly defined, and repeatable. In addition, the portfolio should be constructed in a manner that is consistent with the investment process and performance objective.

### Performance

We do not believe past performance is necessarily predictive of future results, and this factor accordingly receives a relatively small weighting in our evaluation process. In particular, we strive not to anchor on short-term performance. However, we do believe that the evaluation of long-term return and risk patterns is vital to determining if a fund is delivering to our expectations.

### Price

To reflect actual investor experience, price is evaluated within the context of the relevant market or cross-border region—for example, the United States, Australia, Canada, or Europe. In recognition of differences in scale and distribution costs in various markets, the level at which a fund is penalised for high fees or rewarded for low fees can vary with region. In Europe, for example, funds are penalised if they land in the most expensive quintile of their Morningstar category and are rewarded if they land in the cheapest quintile. The assessment is made using annual expense ratios, but in the case of funds with performance fees, expenses are evaluated excluding any performance fees and then the structure of the performance fee is evaluated separately.

## Morningstar Analyst Ratings

Morningstar Analyst Ratings are assigned on a five-tier scale running from Gold to Negative. The top three ratings, Gold, Silver, and Bronze, all indicate that our analysts think highly of a fund; the difference between them corresponds to differences in the level of analyst conviction in a fund's ability to outperform its benchmark and peers through time, within the context of the level of risk taken.

### Gold

Represents funds that our analyst has the highest-conviction in for that given investment mandate. By giving a fund a Gold rating, we are expressing an expectation that it will outperform its relevant performance benchmark and/or peer group within the context of the level of risk taken over the long term (defined as a full market cycle or at least five

years). To earn a Gold rating, a fund must distinguish itself across the five pillars that are the basis for our analysis.

#### Silver

Represents funds our analyst has high-conviction in, but not in all of the five pillars. With those fundamental strengths, we expect these funds will outperform their relevant performance benchmark and/or peer group within the context of the level of risk taken over the long term (defined as a full market cycle or at least five years).

#### Bronze

Represents funds that have advantages that clearly outweigh any disadvantages across the pillars, giving analyst the conviction to award them a positive rating. We expect these funds to beat their relevant performance benchmark and/or peer group within the context of the level of risk taken over a full market cycle (or at least five years).

#### Neutral

Represents funds in which our analysts don't have a strong positive or negative conviction. In our judgment, these funds are not likely to deliver standout returns, but they aren't likely to seriously underperform their relevant performance benchmark and/or peer group either.

#### Negative

Represents funds that possess at least one flaw that our analysts believe is likely to significantly hamper future performance, such as high fees or an unstable management team. Because of these faults, we believe these funds are inferior to most competitors and will likely underperform their relevant performance benchmark and/or peer group, within the context of the level of risk taken, over a full market cycle.

Morningstar may also use two other designations in place of a rating:

#### Under Review

This designation means that a change that occurred with the fund or at the fund company requires further review to determine the impact on the rating.

#### Not Ratable

This designation is used only where we are providing a report on a new strategy or on a strategy where there are no relevant comparators, but where investors require information as to suitability.

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#### Equity-Related Data Points

The Report lists the fund's top ten holdings as of the dated noted. For each underlying holding, a series of data points is provided including, where applicable, that security's Economic Moat as of the date noted.

##### Economic Moat

The concept of an economic moat plays a vital role in our equity analyst's qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of its fair value estimate. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a *narrow moat* are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. *Wide-moat* companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, *no-moat* companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

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