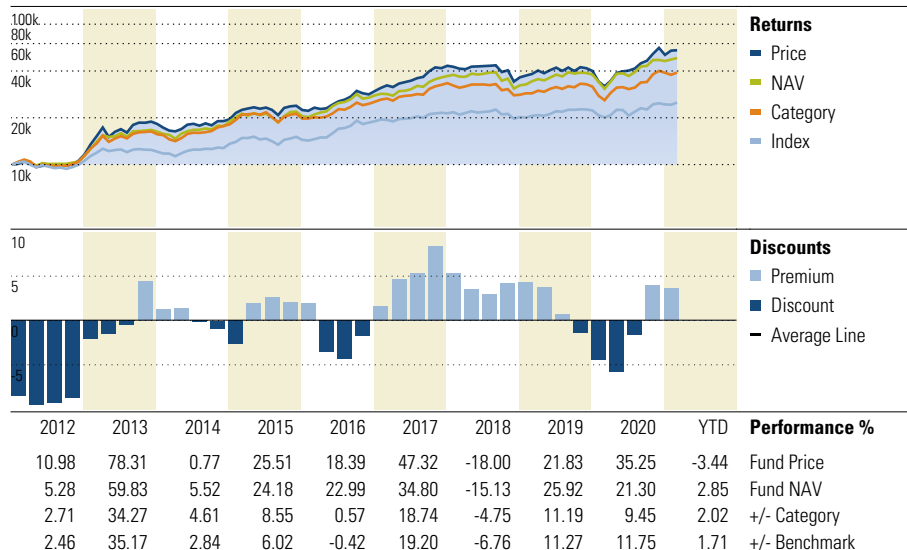


Baillie Gifford Japan Ord BGFD

Morningstar Rating™
★★★★★

Morningstar Analyst Rating
Bronze 5/22/20 15:03 UTC-0500

Morningstar Benchmark	TOPIX TR JPY
Morningstar Category™	Japan Large-Cap Equity
Last Closing Price GBP	10.94
Last Closing NAV GBP	10.65
Discount/Premium %	+2.76
Latest Published NAV	—
Latest Published NAV Date	—
Traded Currency	GBP
Yield	0.41
Dividend Frequency	Annually
Total Assets £ Mil	1,133.1
Net Assets £ Mil	989.3
Market Cap £ Mil	1,016.6
Net Gearing %	8.00
Avg Daily Shares Traded Mil (3 month)	0.19
Inception Date	01/12/1981



Morningstar Analyst: Robert Starkey, Analyst

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Executive Summary

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

Parent: Baillie Gifford is a best-in-class institutionally focused house with key strengths in its international funds.

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: Performance has historically been strong here under the previous manager. While it's still early days here for Brett and Kumar, they have delivered good returns for investors on their longer-tenured mandates.

Fees: The fund charges are competitive within its Japan large-cap equity Morningstar Category 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 fund 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

22 May 2020 | Baillie Gifford Japan is a solid choice for those seeking multi-cap Japanese equity exposure. The dynamic between the comanagers and the wider team offers this strategy notable potential, and it continues to retain its Morningstar Analyst Rating of Bronze.

In April 2018, Matthew Brett was appointed fund manager and Praveen Kumar his deputy, following the retirement of long-standing manager Sarah Whitley. Brett had attended every board meeting here since 2008, so he knew the strategy inside out. Further, Baillie Gifford applies a collegial approach to investment, with ideas drawn from across this well-resourced team (and from the wider company) with the named manager responsible for portfolio construction. Whitley's departure was significant with her near 40 years of accumulated knowledge and experience. However, there remained a very substantial analytical and fund management resource here, and, as expected, we have seen little change to the investment process.

Stocks are selected on bottom-up analysis, unconstrained by sector or index considerations. The focus is primarily upon identifying underappreciated long-term growth. The average holding period is lengthy, with portfolio turnover in the region of 25%. Top-down considerations are incorporated into the stock selection process

as desk research extends to factors such as industry developments, competitor analysis, and consideration of broader factors such as demographics and technology. Meeting with company management is also key to evaluating corporate culture, strategy, past stewardship, and how management's interests are aligned with shareholders'.

Donald Farquharson leads the team, with everyone having research responsibilities drawn across a range of sectors covering the 150 stocks that are deemed of interest. It is the deliberate intention that members build up their general awareness of the investment opportunity set in Japan. This allows for a more informed investment debate. That is not to say all team members are clones, there are nuanced differences on their thinking, which we feel adds to the overall proposition and quality of discussion.

The fees investors pay here are competitive within the broader options available to investors seeking investment in Japanese equities. The tiered management fee is an effective way of passing on economies of scale to investors as assets increase.

The collegial team approach is held in high regard, and the strategy is expected to add value to investors.

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Morningstar Analyst Rating

	2019	2020	2021
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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