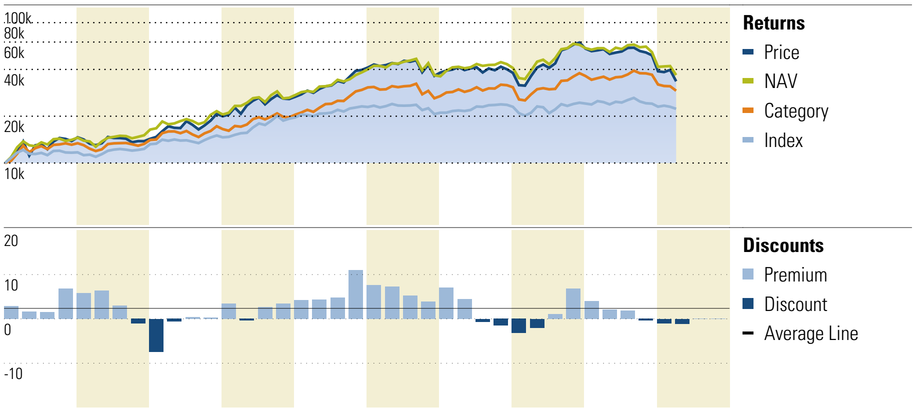
Baillie Gifford Shin Nippon Ord BGS

Morningstar Rating™ ★★★

Morningstar Analyst Rating Silver 5/27/22 11:41 UTC-0500

Morningstar Benchmark MSCI Japan Small Cap NR JPY
Morningstar Category™ Japan Small/Mid-Cap Equity

Last Closing Price GBP	1.48
Last Closing NAV GBP	1.57
Discount/Premium %	-5.49
Latest Published NAV	—
Latest Published NAV Date	—
Traded Currency	GBP
Yield	0.00
Dividend Frequency	Annually
Total Assets £ Mil	579.8
Net Assets £ Mil	492.1
Market Cap £ Mil	465.1
Net Gearing %	16.51
Avg Daily Shares Traded Mil (3 month)	0.86
Inception Date	31/07/1985



2013	2014	2015	2016	2017	2018	2019	2020	2021	YTD	Performance %
55.51	-0.12	49.94	24.51	53.85	-8.44	10.32	48.50	-17.23	-31.95	Fund Price
53.80	7.03	42.85	22.03	45.68	-4.27	17.98	33.10	-10.30	-28.80	Fund NAV
20.85	2.28	23.82	-8.39	15.31	9.51	1.96	22.52	-10.05	-16.28	+/- Category
29.81	1.31	20.85	-6.28	25.78	6.50	3.24	29.94	-8.93	-21.40	+/- Benchmark

Morningstar Analyst: Daniel Haydon, Analyst
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Executive Summary

People: Lead manager Praveen Kumar took over here in December 2015. He is reasonably experienced and has support from analyst Paul Schwerda, who has three years' experience. There is a collegiate approach within the wider 10-person Japan team, which we like.

Parent: Baillie Gifford is a privately owned partnership with an institutional focus. Senior managers have the opportunity to gain equity ownership, which has led to stability among its ranks.

Board: There are seven directors on the board, who have varied and relevant experience. The most recent appointees were Abigail Rotheroe, who joined in March 2022, and Claire E.C. Finn, who joined in November 2021, representing a net increase of two. Board attendance has been good.

Process: This is patient, high growth investing in Japanese small caps. The edge here is the long-term nature of investments and focused, detailed research. Finally, the investment trust structure permits investments in a handful of more exciting unlisted or lower liquidity companies.

Performance: The poor 2021 was followed by a very poor few months in early 2022, which has impacted the track record. This was largely style-related and not unprecedented, and the trust remains ahead of the index since Kumar took over in December 2015. The fund can be expected to be more volatile than the index given the approach.

Fees: The ongoing charge figure at the end of January 2022 was 0.66%. However, this rises when accounting for the cost of debt. The representative cost is 0.81% per year, which still compares well versus the Japan small-cap equity Morningstar Category.

Role in Portfolio
Supporting.

Morningstar Opinion

27 May 2022 | Baillie Gifford Shin Nippon continues to deliver on its Japanese small-cap growth mandate. A combination of an intellectually sound and consistently applied process with the collegiate approach leads to a Morningstar Analyst Rating of Silver.

Portfolio manager Praveen Kumar took over management of Japan small caps at Baillie Gifford in December 2015, equivalent to about six years of portfolio management experience. He joined the firm in 2008 and has been on the Japan equity team since 2011. He has support on Japan small caps from Paul Schwerda, who has three years' experience. The approach is collegiate, and there is some input from others on this 10-person Japan team, some of whom we rate highly. The team does lack on-the-ground presence, though two dedicated research consultants/analysts in Japan somewhat offset this. The addition of Baillie Gifford's first Asian trading desk in Hong Kong during 2020 has been additive for this strategy.

The investment approach focuses on identifying high-growth companies and holding them for the long term to benefit from compounded growth. The portfolio manager aims to invest in financially secure and growing businesses that enjoy durable long-term competitive advantages and are managed by sensible, trustworthy management teams. The team seeks out stocks with the potential to generate asymmetric returns through topline growth, and the bottom-up stock due diligence is research-intensive. High earnings and sales growth are targeted, and this is expected to drive price performance over time. They aim for at least 2 times over five years. The resultant portfolio is relatively diversified, typically with 60-70 stocks. It is decidedly small cap compared with the index, which leads to high active share but also means it is generally more domestically exposed than some peers. The investment trust structure also permits the portfolio to look for high growth across both liquid and illiquid investments; unlisted was at about 3% at the time of review in March 2022 but is likely to increase modestly over time. The trust had potential gearing of 13%, of which 9% was invested.

The combination of low market capitalisation, high growth, and modest leverage can lead to increased volatility versus the index. In addition, short-term valuations among these growth-heavy companies can at times look stretched and thus can be prone to deratings, as has been the case recently, with performance significantly trailing relevant comparators in 2021 and so far this year as the market has rotated from growth to value. In addition, as might be expected with a strategy that targets asymmetric return profiles, there is notable concentration among the top contributors over 10 years. Regardless of the shorter-term noise, some comfort can be taken by encouraging operational updates from many companies held in the fund. Moreover, the trust has outperformed under Kumar's leadership since December 2015, which includes two periods (2016, 2021-22) where style biases have worked against the fund. We encourage investors to tolerate some volatility here and invest over longer time periods that are in line with the investment time horizon considered by the portfolio manager.

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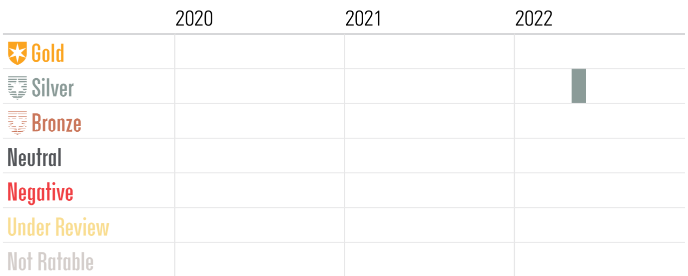
Morningstar Analyst Rating



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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.

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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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