

# THE BAILLIE GIFFORD JAPAN TRUST PLC

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Interim Financial Report  
29 February 2016





## Policy and Objective

The Baillie Gifford Japan Trust aims to achieve long term capital growth principally through investment in medium and smaller sized Japanese companies which are believed to have above average prospects for growth, although it invests in larger companies when considered appropriate.

## Benchmark

The portfolio benchmark against which performance is measured is the TOPIX total return (in sterling terms).

## Principal Risks and Uncertainties

The principal risks facing the Company are financial risk, regulatory risk, operational risk, premium/discount volatility and leverage risk. An explanation of these risks and how they are managed is set out on pages 6 and 7 of the Company's Annual Report and Financial Statements for the year to 31 August 2015 and is available on the Company's website: [www.japantrustplc.co.uk](http://www.japantrustplc.co.uk). The principal risks and uncertainties have not changed since the date of that report.

## Responsibility Statement

We confirm that to the best of our knowledge:

- a) the condensed set of Financial Statements has been prepared in accordance with FRS 104 'Interim Financial Reporting';
- b) the Interim Management Report includes a fair review of the information required by Disclosure and Transparency Rules 4.2.7R (indication of important events during the first six months, their impact on the Financial Statements and a description of the principal risks and uncertainties for the remaining six months of the year); and
- c) the Interim Financial Report includes a fair review of the information required by Disclosure and Transparency Rules 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board  
Nick AC Bannerman  
Chairman  
21 March 2016

## Summary of Unaudited Results

	29 February 2016	31 August 2015	% change
Shareholders' funds	£335.9m	£323.2m	
Net asset value per share (after deducting borrowings at fair value)	425.9p	425.4p	0.1
Net asset value per share (after deducting borrowings at par value)	431.0p	430.2p	0.2
Share price	439.0p	444.8p	(1.3)
TOPIX total return (in sterling terms)			1.0
Premium (borrowings at fair value)	3.1%	4.6%	
Premium (borrowings at par value)	1.9%	3.4%	
Active share*	88%	87%	

Period's high and low	Six months to 29 February 2016		Year to 31 August 2015	
	High	Low	High	Low
Net asset value per share (after deducting borrowings at fair value)	472.3p	360.8p	476.3p	320.9p
Net asset value per share (after deducting borrowings at par value)	476.3p	365.4p	481.3p	326.2p
Share price	482.5p	385.0p	490.0p	316.5p
Premium/(discount) (borrowings at fair value)	8.9%	(2.4%)	9.4%	(6.8%)
Premium/(discount) (borrowings at par value)	7.5%	(3.5%)	8.2%	(8.3%)

\* Active share, a measure of how actively a portfolio is managed, is the percentage of the portfolio that differs from its benchmark. It is calculated by deducting from 100 the percentage of the portfolio that overlaps with the benchmark. An active share of 100 indicates no overlap with the benchmark and an active share of zero indicates a portfolio that tracks the benchmark.

Past performance is not a guide to future performance.

## Interim Management Report

Over the six months to 29 February 2016 the NAV was essentially static, whilst the benchmark index appreciated by 1.0% in sterling terms. In yen terms though the TOPIX was weak, falling around 15% whilst the yen gained against sterling by roughly the same amount. Although the Company's equity holdings outperformed the index during the six months, this was more than offset by the negative impact of the gearing for the portfolio as a whole. Longer term the performance remains strong.

The Japanese stock market has been following global markets in falling as the outlook for growth has weakened. As a result of these concerns and the continuing efforts of the government to try and exit deflation, the Bank of Japan cut interest rates on excess reserves to -10bps, the first time that Japan has had negative nominal interest rates. The ramifications of this policy change are still being felt, but it is hoped that it will stimulate faster cash deployment. There are some tentative signs that share buy backs by companies are accelerating and the drive to improve corporate governance in Japan continues, with some successes.

Otherwise trends in the domestic economy continue as before with a tight labour market, growing inbound tourism and rising prices. Exports have been weak, owing to global trends, but the import bill has fallen sharply as lower oil prices feed through to energy costs and Japan has been running a trade surplus in the last few months for the first time since the devastating effects of the 2011 tsunami.

Although estimates for corporate earnings have been lowered slightly, overall profits in Japan are expected to be quite resilient with most of the expected weakness coming from a higher yen. We continue to believe that corporate Japan remains in reasonable shape and that there continues to be significant scope to increase dividends and use cash balances more effectively over the next few years. The increase in the proportion of earnings coming from overseas, whether yen sensitive or not, does however mean that earnings for the market are more closely correlated with global trends than they used to be.

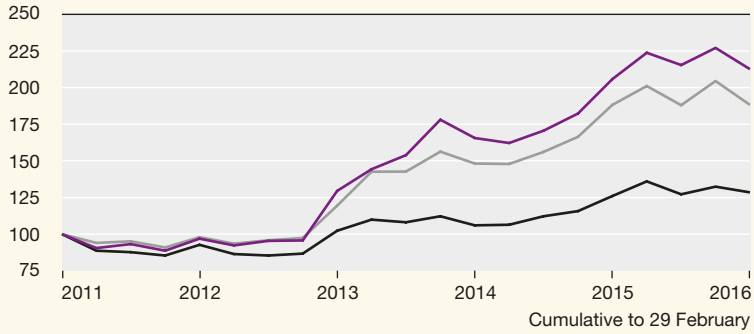
There were strong share price performances from stocks related to the sharing economy which helped performance. Next, an online property broker, aims to enter the market to compete with AirBnB. As hotel rooms have become scarcer and more expensive in Japan, the growing number of tourists will require more accommodation and we expect further regulatory changes to allow developments in accommodation as Tokyo looks forward to hosting world sporting events. Park 24, which operates car parking and car club services, has also been strong as their dominance in the car sharing space widens and the business becomes more profitable. The portfolio was also helped by the lack of holdings in the mega-banks, which have been weak since the Bank of Japan cut interest rates. We have sold holdings in Aeon Mall and Shin-Etsu Chemical as prospects look unenticing and bought a new holding in Takara Leben, which develops flats for first-time buyers and also invests in solar power plants, with various additions being made to some of the smaller holdings.

Overall global uncertainties will continue to affect sentiment in Japan but the unprecedented action of the Bank of Japan reflects the government's determination to boost growth. The next big policy decision will be on the implementation of the next consumption tax rise which is scheduled for April 2017. The last increase had a larger negative impact than was expected on consumption and the next rise is increasingly controversial. However despite this uncertainty we think that the positive changes in corporate governance and large potential for improvements in balance sheet management and dividend payments continue to provide attractive stock picking opportunities for long term investment.

The principal risks and uncertainties facing the Company are set out on the inside front cover of this report.

Past performance is not a guide to future performance.

## Five Year Performance



Source: Thomson Reuters Datastream/Baillie Gifford.

- Share price
- NAV (borrowings at fair)
- TOPIX total return (in sterling terms)

Figures rebased to 100 at 28 February 2011.

Past performance is not a guide to future performance.

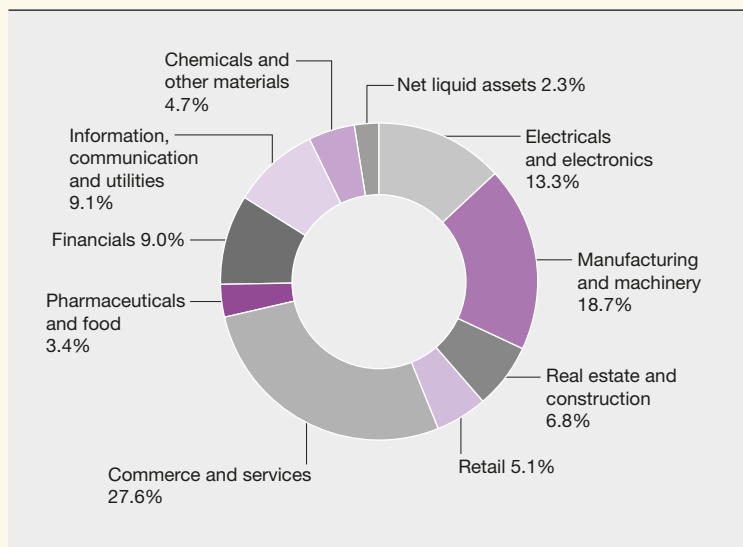
## Twenty Largest Holdings at 29 February 2016

Name	Business	Value £'000	% of total * assets
Systemex	Medical equipment	12,602	3.1
SoftBank	Telecom operator and internet investor	11,275	2.8
Japan Exchange Group	Stock Exchange operator	10,241	2.6
Misumi Group	Precision machinery parts distributor	10,216	2.5
Temp Holdings	Employment and outsourcing services	9,973	2.5
M3	Online medical database	9,846	2.5
Itochu	Trading conglomerate	9,515	2.4
Fuji Heavy Industries	Subaru cars	9,084	2.3
Cookpad	Recipe website	8,877	2.2
Pigeon	Baby care products	8,504	2.1
Rakuten	Internet retail and financial services	8,306	2.1
Don Quijote	Discount store operator	8,248	2.1
Shimadzu	Environmental testing equipment	8,168	2.0
Toyo Tire & Rubber	Tyre manufacturer	8,102	2.0
Tokyo Tatemono	Property leasing and development	8,079	2.0
SMC	Pneumatic control equipment	7,990	2.0
Next	Real estate website	7,934	2.0
Yaskawa Electric	Robots and factory automation	7,753	1.9
H.I.S.	Travel agency and theme parks	7,559	1.9
GMO Internet	Internet services	7,492	1.9
		<b>179,764</b>	<b>44.9</b>

\* Before deduction of bank loans.

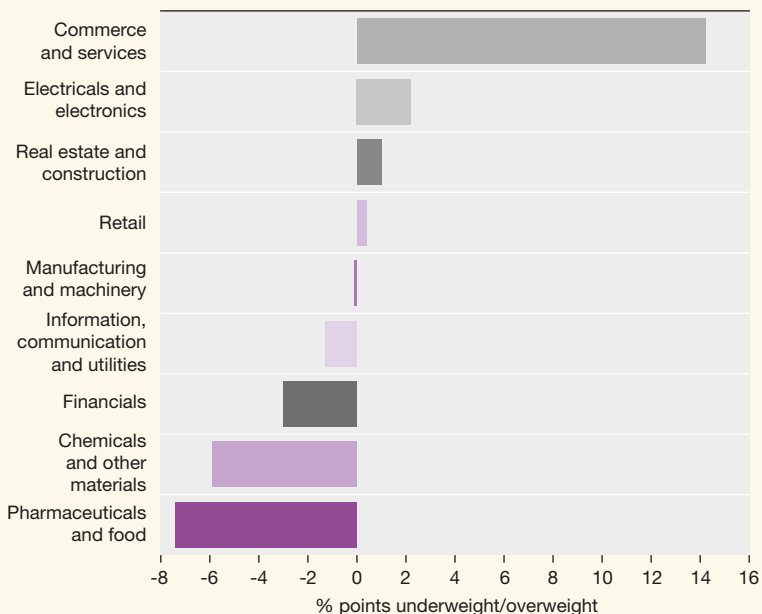
# Distribution and Relative Weightings at 29 February 2016

## Distribution of Total Assets\*



\* Before deduction of bank loans.

## Equity Weightings relative to Benchmark



## Income Statement (unaudited)

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Gains on sales of investments  
Changes in investment holding gains  
Currency (losses)/gains  
Income from investments and interest receivable  
Investment management fee  
Other administrative expenses

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### **Net return before finance costs and taxation**

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Finance costs of borrowings

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### **Net return on ordinary activities before taxation**

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Tax on ordinary activities

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### **Net return on ordinary activities after taxation**

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**Net return per ordinary share** (note 5)

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The total column of this statement is the profit and loss account of the Company.  
All revenue and capital items in this statement derive from continuing operations.



For the six months ended 29 February 2016			For the six months ended 28 February 2015		
Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
–	1,272	<b>1,272</b>	–	2,728	<b>2,728</b>
–	7,085	<b>7,085</b>	–	44,826	<b>44,826</b>
–	(8,811)	<b>(8,811)</b>	–	2,633	<b>2,633</b>
3,256	–	<b>3,256</b>	2,087	–	<b>2,087</b>
(1,201)	–	<b>(1,201)</b>	(993)	–	<b>(993)</b>
(297)	–	<b>(297)</b>	(273)	–	<b>(273)</b>
1,758	(454)	<b>1,304</b>	821	50,187	<b>51,008</b>
(663)	–	<b>(663)</b>	(507)	–	<b>(507)</b>
1,095	(454)	<b>641</b>	314	50,187	<b>50,501</b>
(302)	–	<b>(302)</b>	(209)	–	<b>(209)</b>
<b>793</b>	<b>(454)</b>	<b>339</b>	<b>105</b>	<b>50,187</b>	<b>50,292</b>
<b>1.04p</b>	<b>(0.59p)</b>	<b>0.45p</b>	<b>0.15p</b>	<b>72.23p</b>	<b>72.38p</b>

## Balance Sheet (unaudited)

	At 29 February 2016 £'000	At 31 August 2015 £'000
<b>Fixed assets</b>		
Investments held at fair value through profit or loss	391,497	369,568
<b>Current assets</b>		
Debtors	1,039	345
Cash and cash equivalents	9,043	8,742
	10,082	9,087
<b>Creditors</b>		
Amounts falling due within one year:		
Bank loans (note 6)	(19,072)	(16,096)
Other creditors	(804)	(776)
	(19,876)	(16,872)
<b>Net current liabilities</b>	(9,794)	(7,785)
<b>Total assets less current liabilities</b>	381,703	361,783
<b>Creditors</b>		
Amounts falling due after more than one year:		
Bank loans (note 6)	(45,772)	(38,630)
<b>Net assets</b>	<b>335,931</b>	<b>323,153</b>
<b>Capital and reserves</b>		
Called up share capital	3,897	3,756
Share premium	85,570	73,272
Capital redemption reserve	203	203
Capital reserve	251,285	251,739
Revenue reserve	(5,024)	(5,817)
<b>Shareholders' funds</b>	<b>335,931</b>	<b>323,153</b>
<b>Net asset value per ordinary share</b> (after deducting borrowings at fair value)	<b>425.9p</b>	<b>425.4p</b>
<b>Net asset value per ordinary share</b> (after deducting borrowings at par value)	<b>431.0p</b>	<b>430.2p</b>
<b>Ordinary shares in issue</b> (note 7)	<b>77,934,925</b>	<b>75,121,750</b>

## Statement of Changes in Equity (unaudited)

### For the six months ended 29 February 2016

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve* £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 September 2015	3,756	73,272	203	251,739	(5,817)	<b>323,153</b>
Shares issued (note 7)	141	12,298	–	–	–	<b>12,439</b>
Net return on ordinary activities after taxation	–	–	–	(454)	793	<b>339</b>
<b>Shareholders' funds at 29 February 2016</b>	<b>3,897</b>	<b>85,570</b>	<b>203</b>	<b>251,285</b>	<b>(5,024)</b>	<b>335,931</b>

### For the six months ended 28 February 2015

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve* £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 September 2014	3,467	47,092	203	203,968	(6,016)	<b>248,714</b>
Shares issued	12	917	–	–	–	<b>929</b>
Net return on ordinary activities after taxation	–	–	–	50,187	105	<b>50,292</b>
<b>Shareholders' funds at 28 February 2015</b>	<b>3,479</b>	<b>48,009</b>	<b>203</b>	<b>254,155</b>	<b>(5,911)</b>	<b>299,935</b>

\* The Capital Reserve balance at 29 February 2016 includes investment holding gains on investments of £147,301,000 (28 February 2015 – gains of £148,458,000).

## Condensed Cash Flow Statement (unaudited)

	Six months to 29 February 2016 £'000	Six months to 28 February 2015 £'000
<b>Cash flows from operating activities</b>		
Net return on ordinary activities before taxation	641	50,501
Net gains on investments	(8,357)	(47,554)
Currency losses/(gains)	8,811	(2,633)
Finance costs of borrowings	663	507
Overseas withholding tax	(255)	(181)
Changes in debtors and creditors	(729)	(168)
<b>Cash from operations</b>	774	472
Interest paid	(646)	(502)
<b>Net cash inflow/(outflow) from operating activities</b>	128	(30)
<b>Net cash outflow from investing activities</b>	(13,239)	(6,689)
Shares issued	12,439	929
Bank loans drawn down	17,581	8,070
Bank loans repaid	(17,581)	–
<b>Net cash inflow from financing activities</b>	12,439	8,999
<b>(Decrease)/increase in cash and cash equivalents</b>	(672)	2,280
Exchange movements	973	(82)
Cash and cash equivalents at start of period	8,742	5,231
<b>Cash and cash equivalents at end of period*</b>	<b>9,043</b>	<b>7,429</b>

\* Cash and cash equivalents represent cash at bank and short term money market deposits repayable on demand.

## Notes to the Condensed Financial Statements (unaudited)

- 1 The condensed Financial Statements for the six months to 29 February 2016 comprise the statements set out on the previous pages together with the related notes below. They have been prepared in accordance with FRS 104 'Interim Financial Reporting' and the AIC's Statement of Recommended Practice issued in November 2014 and have not been audited or reviewed by the Auditor pursuant to the Auditing Practices Board Guidance on 'Review of Interim Financial Information'. The Company has adopted FRS 102 for its financial year ending 31 August 2016. The application of the new reporting standards and the AIC's Statement of Recommended Practice has had no impact on the Company's Income Statement, Balance Sheet or Statement of Changes in Equity (previously called the Reconciliation of Movements in Shareholders' Funds) for periods previously reported. The Condensed Cash Flow Statement has been restated to reflect presentational changes required and does not include any other material changes. The Financial Statements for the six months to 29 February 2016 have been prepared on the basis of the same accounting policies as set out in the Company's Annual Report and Financial Statements at 31 August 2015.

### Fair Value

In accordance with FRS 102 and FRS 104, fair value measurements have been classified using the following fair value hierarchy:

Level 1 – reflects financial instruments quoted in an active market;

Level 2 – reflects financial instruments whose fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables includes only data from observable markets;

Level 3 – reflects financial instruments whose fair value is determined in whole or part using a valuation technique based on assumptions that are not supported by prices from observable market transactions in the same instrument and not based on available observable market data.

All of the Company's investments fall into level 1 for the periods reported. The Company has early adopted the amendments to Section 34 of FRS 102 regarding fair value hierarchy disclosures.

### Going Concern

The Company's assets, the majority of which are investments in quoted securities which are readily realisable, exceed its liabilities significantly. All borrowings require the prior approval of the Board. Gearing levels and compliance with borrowing covenants are reviewed by the Board on a regular basis. In accordance with the Company's Articles of Association, shareholders have the right to vote annually at the Annual General Meeting on whether to continue the Company. The next continuation vote will be in December 2016. The Directors have no reason to believe that the continuation resolution will not be passed at the Annual General Meeting. Accordingly, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the Interim Financial Statements.

- 2 The financial information contained within this Interim Financial Report does not constitute statutory accounts as defined in sections 434 to 436 of the Companies Act 2006. The financial information for the year ended 31 August 2015 has been extracted from the statutory accounts which have been filed with the Registrar of Companies. The Auditor's Report on those accounts was not qualified and did not contain statements under sections 498(2) or (3) of the Companies Act 2006.
- 3 Baillie Gifford & Co Limited, a wholly owned subsidiary of Baillie Gifford & Co, has been appointed by the Company as its Alternative Investment Fund Manager and Company Secretary. The investment management function has been delegated to Baillie Gifford & Co. The management agreement can be terminated on not less than 6 months' notice, or on shorter notice in certain circumstances. The annual management fee is 0.95% on the first £50 million of net assets and 0.65% on the remaining net assets, calculated and payable quarterly.
- 4 No interim dividend will be declared.

## Notes to the Condensed Financial Statements (unaudited)

	Six months to 29 February 2016 £'000	Six months to 28 February 2015 £'000
<b>5 Net return per ordinary share</b>		
Revenue return on ordinary activities after taxation	<b>793</b>	105
Capital return on ordinary activities after taxation	<b>(454)</b>	50,187

Net return per ordinary share is based on the above totals of revenue and capital and on 76,593,122 ordinary shares (28 February 2015 – 69,482,579), being the weighted average number of ordinary shares in issue during each period. There are no dilutive or potentially dilutive shares in issue.

- 6** Bank loans of £64.8 million (¥10.2 billion) have been drawn down under yen loan facilities which are repayable between November 2017 and August 2020 (31 August 2015 – £54.7 million (¥10.2 billion)). The revolving loan facilities are shown under short term creditors as these can be drawn for 1, 2, 3 or 6 months and repaid at the end of each drawdown period without incurring breakage costs.
- 7** The Company has the authority to issue shares/sell treasury shares at a premium to net asset value as well as to buy back shares at a discount to net asset value. During the period, 2,813,175 shares (28 February 2015 – 250,000) were issued at a premium to net asset value raising proceeds of £12,439,000 (28 February 2015 – £929,000).
- 8** Transaction costs incurred on the purchase and sale of the investments are added to the purchase cost or deducted from the sales proceeds, as appropriate. During the period, transaction costs on purchases amounted to £10,000 (28 February 2015 – £10,000) and transaction costs on sales amounted to £7,000 (28 February 2015 – £6,000).

None of the views expressed in this document should be construed as advice to buy or sell a particular investment.

## Further Shareholder Information

Baillie Gifford Japan Trust's shares are traded on the London Stock Exchange. They can be bought through a stockbroker, by asking a professional adviser to do so, or through the Baillie Gifford savings vehicles.

### Baillie Gifford's Investment Trust Share Plan

You can invest from £250 or from £30 per month. The plan is designed to be a cost-effective way of saving on a regular or lump sum basis.

### Baillie Gifford's Investment Trust ISA

You can invest in a tax efficient way by investing a minimum of £2,000 or from £100 per month or by transferring an ISA with a value of at least £2,000 from your existing manager.

### Baillie Gifford's Children's Savings Plan

A cost-effective plan tailored especially to meet the requirements to save for children. You can invest a minimum of £100 or from £25 per month.

### Online Management Service

You can open and manage your Share Plan, Children's Savings Plan\* and/or ISA online, through our secure Online Management Service (OMS) which can be accessed through the Baillie Gifford website at [www.bailliegifford.com/oms](http://www.bailliegifford.com/oms). As well as being able to view the details of your plan online, the service also allows you to:

- obtain current valuations;
- make lump sum investments, except where there is more than one holder;
- switch between investment trusts, except where there is more than one holder;

## Further Shareholder Information

- set up a direct debit to make regular investments, except where there is more than one holder;
- sell part or all of your holdings, except where there is more than one holder; and
- update certain personal details e.g. address and telephone number.

\* Please note that a Bare Trust cannot be opened via OMS. A Bare Trust application form must be completed.

The information about the ISA, Share Plan and Children's Savings Plan has been approved by Baillie Gifford Savings Management Limited ('BGSM'). BGSM is the ISA Manager, the Manager of the Share Plan and Children's Savings Plan. BGSM is wholly owned by Baillie Gifford & Co. Both are authorised and regulated by the Financial Conduct Authority. Baillie Gifford only provides information about its products and does not provide investment advice.

### Risk Warnings

Past performance is not a guide to future performance.

Baillie Gifford Japan is a listed UK company. As a result, the value of its shares and any income from those shares can fall as well as rise and investors may not get back the amount invested.

As Baillie Gifford Japan invests in overseas securities, changes in the rates of exchange may also cause the value of your investment (and any income it may pay) to go down or up.

Baillie Gifford Japan has borrowed money to make further investments (sometimes known as 'gearing' or 'leverage'). The risk is that when this money is repaid by the Company, the value of the investments may not be enough to cover the borrowing and interest costs, and the Company will make a loss. If the Company's investments fall in value, any borrowings will increase the amount of this loss.

Baillie Gifford Japan can buy back its own shares. The risks from borrowing, referred to above, are increased when the Company buys back its own shares.

Market values for securities which have become difficult to trade may not be readily available, and there can be no assurance that any value assigned

to such securities will accurately reflect the price the Company might receive upon their sale.

Investment in smaller companies is generally considered higher risk as changes in their share prices may be greater and the shares may be harder to sell. Smaller companies may do less well in periods of unfavourable economic conditions.

Baillie Gifford Japan invests in Japan and exposure to a single market and currency may increase risk.

Baillie Gifford Japan can make use of derivatives which may impact on its performance. Currently the Company does not make use of derivatives.

The aim of the Trust is to achieve capital growth and it is unlikely that the Company will provide a steady, or indeed any, income.

Charges are deducted from income. Where income is low, the expenses may be greater than the total income received, meaning the Trust may not pay a dividend and the capital value would be reduced.

Shareholders in Baillie Gifford Japan have the right to vote at the Annual General Meeting on whether to continue the Company, or wind it up. If the shareholders decide to wind the Company up, the assets will be sold and you will receive a cash sum in relation to your shareholding.

You should note that tax rates and reliefs may change at any time and their value depends on your circumstances. The favourable tax treatment of ISAs may change.

Investment trusts are UK public listed companies and as such comply with the requirements of the UK Listing Authority. They are not authorised or regulated by the Financial Conduct Authority.

Details of other risks that apply to investment in the savings vehicles are contained in the product brochures.

Further details of the risks associated with investing in the Company, including how charges are applied, can be found at [www.japantrustplc.co.uk](http://www.japantrustplc.co.uk), or by calling Baillie Gifford on 0800 917 2112.

The information and opinions expressed in this document are subject to change without notice. This information has been issued and approved by Baillie Gifford & Co and does not in any way constitute investment advice.

## Directors

Chairman:  
Nick AC Bannerman

Paul S Dimond CMG  
J Keith R Falconer  
David P Kidd  
Martin H Paling

## Alternative Investment Fund Managers, Secretaries and Registered Office

Baillie Gifford & Co Limited  
Calton Square  
1 Greenside Row  
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## Registrar

Computershare Investor  
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## Brokers

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## Independent Auditor

PricewaterhouseCoopers LLP  
Chartered Accountants  
and Statutory Auditors  
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Edinburgh  
EH3 8EX

## Depository

BNY Mellon Trust & Depository  
(UK) Limited  
BNY Mellon Centre  
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EC4V 4LA

## Company Details

[www.japantrustplc.co.uk](http://www.japantrustplc.co.uk)  
Company Registration  
No. SC075954  
ISIN GB0000485838  
Sedol 0048583  
Ticker BGF D

## Further Information

Client Relations Team  
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