RNS Announcement: BGS Results

Baillie Gifford Shin Nippon PLC

Legal Entity Identifier: X5XCIPCJQCSUF8H1FU83

The following is the results announcement for the year to 31 January 2022 which was approved by the Board on 15 March 2022.

Results for the year to 31 January 2022

Over the year the Company's net asset value per share (after deducting borrowings at fair value†) declined by 24.1% compared to a 4.3% decline in the comparative index* (the net asset value per share (after deducting borrowings at book value) also decreased by 24.1%). The share price decreased by 28.5% as the shares moved from a premium of 5.4% to a discount of 0.8%.
In sterling terms over three years, the Company's comparative index is up 10.4%, whilst the net asset value (with borrowings at fair value†) and share price are up by 10.9% and 1.9% respectively.

- The share price weakness of many high growth holdings is disappointing to note given their fundamentals; most companies are continuing to achieve rapid sales and profit growth.
- Camping equipment manufacturer Snow Peak was the top positive contributor to relative and absolute performance, with its shares more than doubling over the past year.
- Sportswear manufacturer Descente and semiconductor equipment manufacturer Jeol were other strong performers.
- Many of the internet holdings performed poorly in share price terms. Despite exceptional operational performance, Bengo4.com was among the largest negative contributors to performance
- Other detractors from performance included online food ordering and delivery company Demae Can and online real estate company GA Technologies.
- Shin Nippon's investment philosophy is to seek and invest in disruptive and fast-growing smaller businesses run by young and dynamic entrepreneurs in Japan. The Board and Managers continue to believe that remaining true to this investment philosophy will result in significant shareholder returns in the long run.

* The Company's comparative index for the year to 31 January 2022 was the MSCI Japan Small Cap Index (total return† in sterling terms).

† Alternative Performance Measure – see Glossary of Terms and Alternative Performance Measures at the end of this announcement.
Source: Refinitiv/Baillie Gifford and relevant underlying index providers.

Shin Nippon aims to achieve long term capital growth through investment principally in small Japanese companies which are believed to have above average prospects for growth. At 31 January 2022 the Company had total assets of £643.8m (before deduction of bank loans of £91.1m).

The Company is managed by Baillie Gifford & Co, an Edinburgh based fund management group with around £252 billion under management and advice as at 11 March 2022.

Past performance is not a guide to future performance. The value of an investment and any income from it is not guaranteed and may go down as well as up and investors may not get back the amount invested. The Company has borrowed money to make further investments. This is commonly referred to as gearing. The risk is that, when this money is repaid by the Company, the value of these investments may not be enough to cover the borrowing and interest costs, and the Company makes a loss. If the Company's investments fall in value, gearing will increase the amount of this loss. The more highly geared the Company, the greater this effect will be.

Investment in investment trusts should be regarded as medium to long term. You can find up to date performance information about Shin Nippon at shinnippon.co.uk.

See disclaimer at the end of this announcement.

15 March 2022

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Chairman's Statement

Performance

As highlighted in my prior reports, your Board reviews performance principally over rolling three-year periods. Over this period, to 31 January 2022, the Company's comparative index (MSCI Japan Small Cap Index, total return in sterling terms) return appreciated by 10.4%. Shin Nippon's net asset value per share* ('NAV') appreciated by 10.9% during this period and its share price by 1.9%.

Whilst frustrating that the returns over the three years are not stronger, they need to be set against the backdrop of 2021 when there was a pronounced shift in investor sentiment away from high growth smaller businesses, despite their good ongoing operational performance, in favour of larger and more cyclically exposed companies. Over the year to 31 January 2022, Shin Nippon's NAV per share declined by 24.1% and its share price by 28.5%. The comparative index declined by 4.3%. Having started the period at a 5.4% premium, the Company's shares ended the period at a 0.8% discount to the NAV per share.

Until the current reporting period, the Managers' stock picking approach, which aims to identify young, entrepreneurial and disruptive Japanese companies, had produced impressive results over several years. This approach pays little attention to the composition of the comparative index when constructing the portfolio and consequently the portfolio differs quite markedly from it. It is therefore not unexpected to have a period when performance is not as hoped and indeed it would be odd for this not to be the case; shareholders should expect periods of underperformance. In the Managers' Report below, you will find a more detailed explanation of the more recent performance and commentary on some of the holdings, as well as performance numbers over five and ten years.

Borrowings

The Managers, with the Board's support, continue to use gearing. Over the course of the year invested gearing increased from 8% to 11% and potential gearing from 9% to 16%. Total borrowings increased by ¥5bn (£32.3m) to ¥14.1bn (£91.1m) as the Company drew ¥5bn from a new three-year fixed rate facility with an interest rate of 1.4%.

During the year the yen weakened against sterling by 7.0%. The Company undertook no currency hedging during the year and has no plans to do so.

Revenue Return and Ongoing Charges

Revenue return per share was a positive 0.29p compared to a loss of 0.05p the prior year. The revenue reserve remains in deficit therefore the Company is not in a position to pay a dividend.

It is pleasing to note however that the Company's ongoing charges were 0.66% compared to 0.71% a year earlier.

Share Issuance and Buybacks

During the course of the year the Company issued 12.96m shares (4.3% of the issued share capital as at 31 January 2021) at a premium to NAV per share, raising £31.4m of new capital. This was undertaken when there was a notable imbalance between demand and supply. In addition to the issuance helping manage the share price premium to NAV, the Board is of the view that increasing the size of the Company helps to improve liquidity, reduces costs per share and increases the appeal of the Company to a wider range of shareholders.

As part of this year's Annual General Meeting ('AGM') business, authority will once again be sought to approve share issuance, on a non pre-emptive basis, of up to 10% of the Company's issued share capital. Any share issuance would be undertaken at a premium to NAV per share and therefore be NAV accretive for existing shareholders.

Although no shares were bought back during the year, there will also be an AGM resolution to authorise the approval of share buy backs should the shares start trading at a substantial discount to NAV per share. As with issuing shares at a premium, buying back shares at a discount enhances the net asset value attributable to all existing shareholders.

Board Composition and Governance

Merryn Somerset Webb will not be seeking re-election as a Director at our AGM on 12 May 2022. I would like to place on record the Board's huge gratitude for the support Merryn has given the Company over the past 10 years. I am pleased to report that the Board has agreed to appoint Sethu Vijayakumar as the Company's Senior Independent Director following Merryn's departure.

I am also pleased to report the appointment of two new Directors. Claire Finn joined the Board on 1 November 2021 and Abigail Rotheroe on 1 March 2022. Claire has lived and worked in Japan and brings with her a wealth of relevant experience. Abigail is a former fund manager specialising in Asian (including Japanese) equities who has recently moved into impact investing and sustainability. Both appointments are subject to shareholder approval at the AGM in May.

During the year an external agency, Fletcher Jones, was commissioned to conduct an independent evaluation of both the Board and the Chairman. I am pleased to report a satisfactory outcome to this process.

Environmental, Social and Governance (ESG)

The consideration of ESG factors is part of the long term, active, patient and growth focussed approach to investment by our Managers. Your Board is pleased with the focus the Managers place on ESG and the resources applied to it. ESG in its widest sense is a broad and complex subject and it features as part of every Board meeting. Along with additional training undertaken, the appointment of Abigail strengthens the Board's oversight of such matters. No doubt there will be more to report on ESG in future years as further research and techniques are developed to evolve the integration of ESG issues into the investment decision making process.

Annual General Meeting

I am pleased to report that as matters stand, it is intended that this year's AGM will take place in person at Baillie Gifford's offices in Edinburgh at 9.30am on Thursday 12 May 2022. The Managers will be presenting and the Board and I look forward to seeing as many of you there as possible. Should circumstances change, and shareholders not be permitted to attend the AGM, further information will be made available through the Company's website at **shinnippon.co.uk** and the London Stock Exchange regulatory news service.

Outlook

2021 created a difficult backdrop for small cap growth investing in Japan. The favourable environment for disruptive small caps stalled last year. This was particularly pronounced due to their inherent characteristics: many are embryonic, operate in niche areas and have sparse investment analyst coverage. The share price underperformance of high growth businesses is disappointing but perhaps not unusual as one period of strong outperformance will often lead to a period of underperformance. Over the course of the last year, investor sentiment shifted away from the growth companies in which we invest in favour of so-called value names. That said, sentiment and macro matters often have no bearing on the fundamentals of small cap growth businesses adding significant value over longer, more meaningful, time periods as can clearly be demonstrated by Shin Nippon's five-year performance.

The appalling situation developing in Ukraine has weighed heavily on global markets and the Company's share price and NAV are not immune. There is a key emerging risk from the interconnectedness of global economies and the related exposure of the Company's portfolio to the societal and financial implications of the military conflict. This may well restrain growth in some of the Company's investments.

Our Managers will continue to promote a 'bottom-up' stock picking approach dedicated to researching and sourcing disruptive companies and technologies that will allow those businesses to outperform in the long term. A proposed Board trip to Japan has been postponed for two years and it is hoped that our trip, planned for November 2022, will proceed. This will allow your Board to visit existing and potential holdings within the portfolio. Inevitably after the disappointing short-term performance of the Company your Board will look to the Managers to reverse this trend by continuing to look for good quality companies which have the ability to challenge norms.

Baillie Gifford Shin Nippon PLC

M Neil Donaldson
15 March 2022

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Source: Refinitiv/Baillie Gifford and relevant underlying index providers. See disclaimer at the end of this announcement.

* After deducting borrowings at fair value.

For a definition of terms see Glossary of Terms and Alternative Performance Measures at the end of this announcement.

Managers' Report

The past twelve months have been tough for high growth investors globally. Following a strong year in 2020, high growth stocks have seen a reversal in their share prices. Japanese small caps have been hit particularly hard as a number of external factors have soured investor sentiment. While we may be past the worst in terms of the human cost of the pandemic, supply chain disruptions and travel restrictions continue to weigh on Japanese small caps and these will take time to resolve. More positively, it appears to us that the pandemic is in its final throes and this is encouraging governments to loosen some of their current restrictions. However, as mentioned in the Chairman's Statement, the dreadful situation in Ukraine has resulted in more extreme volatility in global markets and it is likely that this will further impair high growth stocks at least in the medium term.

As noted in the Interim Manager's Report, there was moderate weakness in markets during the first six months of the year. However, the subsequent six months experienced an accelerated sell-off in small cap growth stocks. Although it is difficult to identify a single reason for this, we believe it is driven by a combination of external factors. There has been a noticeable shift in investor preference from the so-called 'pandemic winners' to traditional cyclical companies seen as beneficiaries of a return to normality. For instance, one of the best performing sectors over the past year has been shipping and transportation. The share price performance of most shipping companies over the past year has been exceptionally strong, and they constitute the bulk of the top ten performing stocks within the comparative index. Concerns around the Russia-Ukraine situation have contributed to a sharp rise in energy prices. This has resulted in significant share price gains amidst record profits at some oil and gas companies. More recently, the spectre of high inflation and rising interest rates has added to the list of market concerns. While these external factors require due consideration, to our mind, they have little bearing on the long-term growth prospects of high growth Japanese small caps. It is pleasing to note that despite these macro headwinds, operational performance at the majority of Shin Nippon's holdings over the past year continues to be strong.

Performance

Shin Nippon's investment philosophy is to seek and invest in disruptive and fast-growing smaller businesses run by young and dynamic entrepreneurs in Japan. These young businesses are often driving much needed change across the country. Despite these stocks being out of favour in the short-term, we continue to believe that remaining true to this investment philosophy provides us the best chance of generating significant shareholder returns in the long run. Our investment style and philosophy also mean that we are unlikely to invest in companies operating in traditional sectors. The latter may have performed exceptionally well in the short-term, but we see significant long-term structural challenges for such companies.

For the year ending 31 January 2022, Shin Nippon's NAV decreased by 24.1% compared to a fall of 4.3% in the MSCI Japan Small Cap Index (all figures total return and in sterling terms, NAV with borrowings at fair value). We are quite disappointed with this performance but given the weak sentiment around high growth Japanese small caps, it is perhaps no surprise that Shin Nippon has lagged. However, we believe a fairer way of looking at performance is to focus on the long-term. Over five and ten years, Shin Nippon's NAV has increased by 52.2% and 399.4%, compared to a rise of 19.1% and 144.6% respectively in the comparative index.

The share price weakness of many high growth holdings is disappointing to note given their fundamentals; most companies are continuing to achieve rapid sales and profit growth. It is heartening to see management teams of these companies not being afraid of investing for future growth despite the negative market sentiment. In some cases, these companies are also beginning to exercise their pricing power, given their strong competitive positions. Bengo4.com, one of Japan's leading online legal websites and digital contracts providers is on track to more than triple its profits year-on-year. Thanks to its strong market position, it has been able to increase the price of some of its subscription plans. Despite a heavy investment burden, management also recently announced a share buyback programme which suggests they believe their shares to be undervalued given the strong long-term growth prospects of the business. KH Neochem, a manufacturer of complex, environmentally friendly chemicals used in air-conditioners, cosmetics and semiconductors, also raised prices over the past year. It operates in an oligopolistic industry and is one of three companies globally that can mass produce these high-purity chemicals. Longstanding holding MonotaRO, Japan's largest pure-play online retailer of maintenance, repair, and operations equipment, is investing aggressively despite a hit to short-term profits. The company is adding a new distribution centre that would increase its sales capacity by nearly 50%. It is an example of a company that is seeing continued strong demand for its products and is growing rapidly in the process, contrary to what its short-term share price direction might suggest.

Positive contributions to performance over the past year came from a wide range of sectors. Snow Peak, a camping equipment manufacturer, was among the best performing stocks. It is Japan's leading brand of high-end camping items and has a strong reputation within Japan's growing camping community. Camping as a recreational activity is seeing strong growth in Japan as an increasing number of 'second' baby boomers (those born in the early 1970s) and young families embrace this form of recreation. In the US, where the company is expanding aggressively, roughly one in three households now go camping, representing a huge market for the company. Outdoor camping has been a big beneficiary of the pandemic and Snow Peak's growth momentum has remained strong. Management is forecasting another period of high growth next year. Semiconductor equipment manufacturer Jeol was another strong performer. It has developed a unique semiconductor production device that allows end customers to significantly shorten production lead times. It is seeing strong demand for this product that is being used to manufacture the next generation of semiconductor chips.

Training and employment assistance provider Litalico also performed well over the past year. It works exclusively with disabled people and children with developmental difficulties. It targets the roughly five million adults and children in Japan who suffer from cognitive and mental disabilities. The Japanese government has put in place policies to improve access and employment opportunities for disabled people. As a pioneer in this area, Litalico is benefitting from these policies. Management have been trying to diversify their business in order to reduce their reliance on government subsidies. They have added numerous fee-paying business lines like computer programming for kids, financial planning for families with disabled members and after school and day-care services. These fee-paying segments are all growing rapidly, establishing Litalico as a leading one-stop-shop service provider in this niche area. Sportswear manufacturer Descente was another strong performer. It is seeing rapid growth in the large Chinese market where it has a joint venture with Anta Sports, one of China's largest home-grown trainers and sportswear brands.

Given the indiscriminate nature of the sell-off in growth stocks over the past year, it is no surprise to see many of Shin Nippon's internet holdings perform poorly in share price terms. As alluded to earlier, despite exceptional operational performance, Bengo4.com was among the largest negative contributors to performance. This is a classic example of a stock where the weak share price performance is very much at odds with strong operational progress. Japan's leading online food ordering and delivery company Demae-Can also performed poorly. As the nascent online food delivery market in Japan continues to expand, Demae-Can is steadily strengthening its position as the leading player. Management is investing aggressively in enhancing their delivery and logistics capabilities, generating over 100% annual sales growth in the process. However, this significant upfront investment is also resulting in large operating losses which was not taken well by the market. Management has ambitions of expanding beyond food delivery and have recently started delivery services for daily necessities. Expansion into non-food categories significantly broadens Demae-Can’s addressable market and could potentially be very exciting in terms of its future growth prospects. Online real estate company GA Technologies was another weak performer. It is attempting to automate the entire process of buying, selling and renting/leasing real estate properties through the use of its in-house developed suite of software tools and services. Its target market is quite large and is dominated by numerous small and mid-sized players with traditional business practices. GA Technologies is consistently taking share from these incumbents. Management has been investing aggressively to strengthen their software development capabilities and this is resulting in near-term operating losses.

Portfolio

We pay less attention to the comparative index and focus more on a company’s individual attractions. Consequently, Shin Nippon’s active share continues to be high at 95%, implying just a 5% overlap with the index. Portfolio turnover for the financial year was 13.4%, which is consistent with our philosophy of being patient and long-term investors with an investment horizon of at least five to ten years.

Among the new holdings purchased over the past year was Enechange, a disruptive and rapidly growing company that is run by its young, dynamic and Cambridge educated founder. Established in 2015, it has grown rapidly to become Japan’s largest independent online energy switching service. Numerous independent power producers and suppliers have entered the Japanese energy market following its deregulation in 2016. Although this has meant more choice for the end consumer, a simple and easy to use service to help customers search and switch to the best deal available has been lacking. Enechange has filled this gap through its online switching model where it charges energy companies a commission each time customers switch to them. It also has a software-as-a-service business where it provides software tools to energy companies, allowing them to monitor, analyse and manage their energy distribution infrastructure in real-time, thereby reducing significant costs.

We also invested in Spiber, a private synthetic biology company founded by two Keio University bioinformatics students who currently serve as co-CEOs. It designs custom-made fibres from proteins that are manufactured on an industrial scale by genetically modified microbes. These custom-made fibres can then be used in prototyping new products for applications like apparels. Products made from these custom-made fibres can be an economically viable and environmentally friendly alternative to conventional textiles that contribute to environmental degradation, be it through the use of hydrocarbon-based feedstock, carbon emissions or water/energy consumption. Spiber has an opportunity to disrupt large swathes of not just the apparel industry but many other sectors with a significant carbon footprint. The company has made good progress in commercialisation, with their first commercial-grade plant in Thailand expected to start production soon. We also took a holding in Shima Seiki, a world leader in the production of automated flat-knitting machines. It developed the world’s first ‘Wholegarment’ knitting machine that can 3D knit an entire garment seamlessly from start to finish, thereby reducing waste, saving time and cutting production costs. The apparel industry is notorious for using significant amounts of natural resources and generating large quantities of waste. There is an increasing awareness within the industry to remedy this resource intensity and we believe Shima Seiki’s Wholegarment machine provides a very attractive option for companies.

We also sold a few holdings over the past year. Among these was JP Holdings, Japan’s largest private sector child day-care services provider. We had hoped that the rising number of women participating in the labour market would lead to increased demand in childcare. However, this has not materialised to the extent that we had hoped. We were also concerned about increasing competition in the sector and were left underwhelmed by management’s ability in being able to respond to this. We also sold longstanding holding H.I.S., Japan’s largest travel operator. The company has suffered large losses in the wake of the pandemic induced travel disruption globally, leading to a significant deterioration of its balance sheet. Biotech company Nanocarrier was also sold from the portfolio following a series of disappointing clinical trial results of its main cancer drug.

Outlook

Although the sharp sell-off in high growth Japanese small caps has resulted in relative underperformance for Shin Nippon, we remain optimistic about the future growth prospects of the underlying holdings. As an investor, it can be unnerving to witness such a sharp drawdown in a short period of time. However, especially in these market conditions, we believe it is important to remain focussed on maintaining consistency in terms of our stated investment philosophy and process that has served shareholders well over longer periods of time. By ignoring market noise and focusing on company fundamentals, we give ourselves the best chance of picking exceptional growth companies that can deliver attractive long-term returns for shareholders. As noted in the Interim Manager's Report, the pandemic has caused wide-spread disruption to businesses and societies globally, but it is also serving to accelerate much needed and long overdue change in the way businesses operate. In Japan, a country steeped in tradition, we continue to see significant changes to working practices and consumer behaviour and preferences. All these changes are leading to new growth opportunities for Japanese small caps. The current weakness in stock markets has meant that valuations of high growth small caps in Japan are now at very attractive levels given their strong growth prospects and excellent operational progress. This presents us with an exciting opportunity to invest in such exceptional smaller companies that we believe will reward patient and long-term shareholders of Shin Nippon.

Baillie Gifford & Co
15 March 2022

Source: Refinitiv/Baillie Gifford and relevant underlying index providers. See disclaimer at the end of this announcement.

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Review of Investments

A review of some of the Company's new acquisitions together with a list of the ten largest investments is given below.

Top Ten

Jeol

3.0% of total assets

Jeol is a specialist manufacturer of high-powered microscopes and other scientific analysis equipment. The company has strong global market positions in its niche markets which are growing on the back of increased R&D spending both by academia and the corporate sector. The company has a history of developing new products targeted at these areas. As an example, it has recently developed a direct electron beam mask writer that is used in the early stages of the semiconductor development process to etch circuit patterns onto a silicon substrate. This could disrupt the current method of using mask blanks to indirectly transfer patterns onto silicon substrates and open a significant market opportunity for the company.

Katitas

2.9% of total assets

Katitas is a specialist real-estate developer that buys and renovates old, abandoned homes before selling them on to first-time buyers. The problem of empty houses in Japan is reaching acute levels, resulting in a hollowing out of entire communities. There are an estimated 8 million old or abandoned houses across Japan, most of them vacant. A lot of these are ancestral homes which families, despite living elsewhere, are reluctant to sell. For authorities looking to regenerate local economies, the only option is to demolish these properties and build new establishments, often for business purposes. The families are reluctant to give up these properties for sentimental reasons. Katitas offers an attractive option for these families by offering to acquire these houses and the associated land for a reasonable price, renovate these to a high standard before selling them. In the process, Katitas also ends up playing a part in rejuvenating local communities. Because these houses are scattered across Japan, sourcing potential is quite difficult. Over the years, Katitas has developed a strong network of local contacts across Japan that ensures a steady supply of properties they can buy. The company generates very attractive margins despite selling these properties at a meaningful discount to new-build houses. Finally, second-hand home ownership in Japan is exceptionally low compared to other developed markets although this is changing and should provide a long-term tailwind for Katitas.

Descente

2.7% of total assets

Descente is a sportswear manufacturer. It has a portfolio of owned and licensed brands which include names like Descente, Le Coq Sportif, Umbro, and Srixon. Its portfolio of brands varies by price and category. For example, Descente is a high-end skiing and active-wear brand whereas Umbro is more of a mid-market brand best known for football. It has a heritage in performance sportswear, backed by research and development, which feeds into its product range, particularly at the higher end. Around 50% of its revenue comes from South Korea and 40% from Japan. China is a big opportunity for Descente where it has a joint venture with Anta Sports, China's largest sportswear brand by revenue. It appointed a new President in June 2019 signalling less of a reliance on the founding family. This followed on from trading house Itochu upping its stake in Descente to around 40%. This rejig should give Descente fresh impetus and it has set out plans to be more aggressive in China and refocus on profitability in Japan. It also seems confident that a downturn in its South Korea business is temporary in nature. On top of this, Olympic sporting years are ahead in both Japan and China. This along with health and well-being increasingly becoming a policy lever should be helpful. Overall, an improving demand backdrop along with a more focused strategy should mean sales and profit can grow meaningfully from here.

Litalico

2.7% of total assets

Litalico provides training and employment assistance for disabled people and educational services for children with developmental difficulties. It targets the roughly 5 million adults and children in Japan who suffer from cognitive and mental disabilities. The Japanese government has put in place policies to improve access and employment opportunities for disabled people. This should benefit the likes of Litalico that is one of the few players with nationwide coverage. The company is also developing new businesses to support its core operation of providing training and employment. These include computer programming for kids, financial planning for families with disabled members, and after school and day-care services. We think the growth opportunity for the company could be quite attractive given these tailwinds. It is also run by a young and dynamic President who owns a large stake in the business.

Snow Peak

2.7% of total assets

Snow Peak is Japan's leading brand of high-end camping items with a line-up of around 800 products. It has a strong reputation within Japan's camping community and has a dedicated and growing user-base. Camping as a recreational activity is seeing strong growth in Japan as an increasing number of 'second' baby boomers (those born in the early 1970s) and young families embrace this form of recreation. In the US, where the company is expanding aggressively, one in three households now undertake camping, representing a large market for Snow Peak. The company is run by a father (founder) and daughter duo who between them own about 30% of the company, thereby ensuring strong alignment. The daughter is the chief designer of Snow Peak's products and has a background in fashion and design. We think the long-term growth prospects for the company could be quite exciting given the favourable industry background and its strong brand.

Sho-Bond

2.6% of total assets

Sho-Bond specialises in reinforcing concrete structures such as bridges, highways, and tunnels with its proprietary resin. The demand background has been improving due to the need to repair and replace some of the ageing infrastructure in Japan. The competitive environment has become more favourable for Sho-Bond as it operates a fabless model whereas competitors are more labour intensive and are suffering from cost escalations due to labour shortages in Japan. Through its business, Sho- Bond also addresses the problem of environmental degradation caused by excessive use of concrete whose manufacturing process can be very polluting. By using its expertise, it repairs, restores, and reinforces existing concrete structures thereby prolonging their useful life.

Megachips

2.5% of total assets

Megachips is a fabless semiconductor chip design company. The company is a significant supplier of chips for Nintendo's gaming consoles and has been enjoying strong growth thanks to the ongoing success of Nintendo's latest console, Switch. They also have a subsidiary called SiTime that is emerging as a global leader in microelectromechanical (MEMS) based timing components for electronic devices. These are more accurate and energy efficient than the current quartz-based timing components which are present in most electronic devices so the potential market opportunity for SiTime could be huge.

Raksul

2.3% of total assets

Raksul is an online cloud-based service provider that connects printing companies with end customers. The printing industry in Japan is very sizeable but quite traditional. It is also very inefficient in that a small number of printing companies get a large chunk of customer orders, leaving smaller and mid-sized players with very low-capacity utilisation. Online penetration also remains very low compared to other developed markets. Through its online platform, Raksul is attempting to modernise this industry by using its platform to efficiently allocate orders thereby improving utilisation rates across the sector. It also has another similar business called 'Hacobell' that acts as an on-demand order management platform connecting clients with small and medium sized trucking companies. This is like an 'Uber of logistics' and operates in an industry that is about 3x the size of the printing industry. The company is growing its sales rapidly and is run by a young and dynamic management team headed by the founder who has a large stake in the business.

Shoei
2.3% of total assets
Shoei is the leading manufacturer of premium motorcycle helmets globally. The market is expanding thanks to growth in emerging markets and barriers to entry are high given the strict safety requirements. Shoei has been operating in this niche market for over four decades and has established a strong and globally recognised brand. It operates exclusively at the premium end of the market and therefore, can make very high margins and returns. The company is run by a dynamic and sensible management team that have sought to maintain the high-end nature of its products and continue to engage in innovative product development.

Tsugami
2.2% of total assets
Tsugami is a machine tool manufacturer specialising in automatic lathes. It has high market shares in Japan and overseas, most notably China. It generates 80% of sales from overseas so the mature domestic market is of less importance to its long-term growth prospects. Within overseas, China accounts for just over half of total sales and is growing rapidly. Sales in China are undertaken by a subsidiary listed in Hong Kong and 71% owned by Tsugami. The end markets for Tsugami's products in China are huge and growing, and the company has built a strong reputation for product quality and service reliability given its nationwide network. Although quite small currently, Tsugami also has an Indian business that is growing fast in a market that is very immature. Management have indicated they might list the Indian subsidiary soon, following the same playbook as the Hong Kong subsidiary.

New Buys
Enechange
1.2% of total assets
Enechange is a young, disruptive, and rapidly growing company founded in 2015 by the current CEO Yohei Shiroguchi. He started this business whilst reading for a PhD at Cambridge University. Enechange operates two distinct businesses: 'Platform' and 'Data'. The platform business is an online service allowing individuals and businesses to switch their energy providers easily. Enechange charges a fixed percentage of a customer's monthly energy bill and also gets paid a one-off commission by the energy companies for each successful switch. The data business involves Enechange selling a SaaS package to energy companies that allows them to monitor, analyse, and manage their energy distribution infrastructure in real-time. Following deregulation in 2016, the Japanese energy market has seen a huge influx of smaller, independent power providers, offering competitive energy tariffs. This has encouraged a significant increase in customers switching to the best deals. The number of such switches remains quite small, thereby offering Enechange a large growth opportunity. It is also gaining traction with energy suppliers for its data business as these companies are keen to use customer data in terms of energy usage to improve their own efficiency and cut costs. Enechange is the only such provider of both the platform and the data business and is building a strong competitive position.

Spiber
1.1% of total assets
Spiber is a private Japanese bio-materials company spun out of Keio University in 2007. It was founded by two Keio University bioinformatics students who currently serve as co-CEOs and own around 12% of the company between them. It is an R&D led, vertically integrated bio-materials science business offering in-house end-to-end protein design, synthesis, evaluation, and manufacturing. In layman's terms, Spiber designs custom-made fibres from proteins

that are manufactured on an industrial scale by genetically modified microbes. These custom-made fibres can then be used in prototyping new products across numerous applications. The appeal of innovative, bio-fabricated (i.e., made from engineered microbes) and biodegradable materials is obvious. They can be an economically viable and environmentally friendly alternative to conventional textiles that contribute to environmental degradation, be it through the use of hydrocarbon-based feedstock (over 60% of feedstock for conventional fibres comes from plastics), carbon emissions (the apparel and footwear industries alone account for nearly 10% of global greenhouse gas emissions) or water/energy consumption (textile production is said to account for 5-10% of global freshwater withdrawal). Spiber has an opportunity to disrupt large swathes of not just the apparel industry but many other sectors that currently use environmentally intensive raw materials. The company has made good progress in terms of commercialisation, with their first commercial-grade plant in Thailand expected to start production soon.

Toyo Tanso
0.8% of total assets
Toyo Tanso makes speciality carbon products and has a leading global share in isotropic graphite used in renewable energy equipment and semiconductor manufacturing. It also has a leading global share in silicon carbide coated graphite materials that are used in the manufacture of compound semiconductors. Due to its excellent heat resistance and durability, Toyo Tanso's isotropic graphite is a key consumable part of the heaters and crucibles used in the manufacturing process of monocrystal silicon which is the raw material for solar-cell devices and semiconductors. Both markets are expected to see strong growth in the coming years, thanks to the proliferation of devices that are using an increasing number of chips in them as well as the emphasis on increasing the use of renewable energy. Toyo Tanso's isotropic graphite and silicon carbide coated devices are high margin products and given the favourable industry backdrop, we believe this has the potential of transforming the company's margin and returns profile. This is a family run business with around 30% of the company being held by the family and related investment vehicles. We think this ensures strong long-term alignment with minorities.

Kamakura Shinsho
0.5% of total assets
Kamakura Shinsho is an online end-of-life services business. It operates Japan's leading funeral consultation websites, such as Good Funeral, where prices can be compared, and advice sought from its team of specialist counsellors. Death is a notoriously expensive affair in Japan with concerned parties often in a vulnerable state. The current value-add proposition in this very traditional industry is questionable at best. We think Kamakura Shinsho's attempts to bring more transparency to this industry are admirable. With online penetration low in funerals and related services it has a big opportunity set to go after. This combined with Japan's well-known demographics and sizeable insider ownership makes the investment case compelling. It also has a few newer business lines like inheritance and tax planning which could become a bigger part of the whole over time.

Shima Seiki
0.2% of total assets
Shima Seiki is a world leader in the production of automated flat-knitting machines. It is family-run, with founder as chairman and his son as President. Each owns 3% and there is a further 8.4% held through a family trust. Founded in 1962, its computerised flat knitting machines were first used to knit gloves and socks, but their use has broadened out to general garment knitting and more recently, knitting for the industrial sector with carbon fibre. In 1995, Shima Seiki invented the world's first fully automated knitting machine (called 'Wholegarment') that can 3D knit an entire garment seamlessly from start to finish. Wholegarment has recently gained a lot of attention as a potential solution to the problem of excessive waste generated by the apparel industry, with the 'fast-fashion' segment being the chief culprit. The company's Wholegarment machine can significantly reduce apparel wastage and save time and money as it offers a complete end-to-end automated solution. We think there is likely to be a huge opportunity for Shima Seiki and its Wholegarment machine in future as the global apparel industry makes a serious effort to tackle waste and its own environmental footprint. Although there are at least a couple of competitors currently, Shima Seiki has by far the

most advanced and sophisticated solution and management are constantly trying to reduce the cost of ownership further to encourage wider adoption.

Baillie Gifford Statement on Stewardship

Reclaiming Activism for Long-Term Investors

Baillie Gifford's over-arching ethos is that we are 'actual' investors. We have a responsibility to behave as supportive and constructively engaged long-term investors. We invest in companies at different stages in their evolution, across vastly different industries and geographies and we celebrate their uniqueness. Consequently, we are wary of prescriptive policies and rules, believing that these often run counter to thoughtful and beneficial corporate stewardship. Our approach favours a small number of simple principles which help shape our interactions with companies.

Our Stewardship Principles

Prioritisation of long-term value creation

We encourage company management and their boards to be ambitious and focus their investments on long-term value creation. We understand that it is easy for businesses to be influenced by short-sighted demands for profit maximisation but believe these often lead to sub-optimal long-term outcomes. We regard it as our responsibility to steer businesses away from destructive financial engineering towards activities that create genuine economic value over the long run. We are happy that our value will often be in supporting management when others do not.

A constructive and purposeful board

We believe that boards play a key role in supporting corporate success and representing the interests of minority shareholders. There is no fixed formula, but it is our expectation that boards have the resources, cognitive diversity and information they need to fulfil these responsibilities. We believe that a board works best when there is strong independent representation able to assist, advise and constructively test the thinking of management.

Long-term focused remuneration with stretching targets

We look for remuneration policies that are simple, transparent and reward superior strategic and operational endeavour. We believe incentive schemes can be important in driving behaviour, and we encourage policies which create alignment with genuine long-term shareholders. We are accepting of significant pay-outs to executives if these are commensurate with outstanding long-run value creation, but plans should not reward mediocre outcomes. We think that performance hurdles should be skewed towards long-term results and that remuneration plans should be subject to shareholder approval.

Fair treatment of stakeholders

We believe it is in the long-term interests of companies to maintain strong relationships with all stakeholders, treating employees, customers, suppliers, governments and regulators in a fair and transparent manner. We do not believe in one-size-fits-all governance and we recognise that different shareholder structures are appropriate for different businesses. However, regardless of structure, companies must always respect the rights of all equity owners.

Sustainable business practices

We look for companies to act as responsible corporate citizens, working within the spirit and not just the letter of the laws and regulations that govern them. We believe that corporate success will only be sustained if a business's long-run impact on society and the environment is taken into account. Management and boards should therefore understand and regularly review this aspect of their activities, disclosing such information publicly alongside plans for ongoing improvement.

Corporate Governance and Sustainability Engagement

By engaging with companies, we seek to build constructive relationships with them, to better inform our investment activities and, where necessary, effect change within our holdings, ultimately with the goal of achieving better returns for our shareholders. The three examples below demonstrate our stewardship approach through constructive, ongoing engagement.

Sato Holdings

Sato Holdings is a manufacturer of labelling products and supply chain management solutions. We met with CEO Kotaki-san to discuss a range of ESG-related topics. Sato present themselves as a dynamic workplace where every employee is encouraged to experiment and not be afraid of failure. In this context, it was interesting to hear that around 70 per cent. of employees take part in the share purchase scheme. However, we believe some aspects of Sato's employee engagement, such as encouraging employees to quit smoking, detract attention from more material areas such as work life balance and career development. We discussed this with Kotaki-san, as well as broader points around Sato's culture and approach to long-term strategy.

Cybozu

Cybozu is a founder-led software solutions developer which caters mainly to SMEs. Its products are varied but generally support team collaboration and better working practices. Its culture is powerfully differentiated: employees can declare their own working hours; it offers up to six years' worth of parental leave; and staff are permitted to work a second job in the interest of promoting an entrepreneurial attitude amongst all employees. We believe Cybozu's approach to culture is a crucial component of the investment case; however, as can sometimes happen with companies that break from industry norms, their unique culture also manifests in certain governance practices that warrant additional scrutiny.

At the most recent annual general meeting they appointed 16 new inside directors, and disclosed that the process of reviewing the applications resulted in the decision to appoint everyone that applied, including an employee who had been with the company for only one year. We contacted the company to present our view, while unique cultures are undoubtedly to be celebrated, this shouldn't be at the expense of certain checks and balances that a board are supposed to supply. We decided to abstain on the vote to elect the CEO, Yoshihisa Nishibata, but voted in favour of the rest of the candidates. We believe this struck the balance of conveying the importance of the concerns we have regarding some functions of the board, whilst supporting the company in challenging mainstream conceptions of how Japanese companies should be run.

Yonex

As part of a review of Japanese holdings for exposure to potential human rights concerns, with a particular focus on companies with supply chains extending into Xinjiang, Yonex was identified as having relatively limited disclosure. While their human rights policy includes a reference to zero tolerance to forced labour, there was no information on monitoring and due diligence processes.

Yonex advised they do not have any exposure to Xinjiang; however, they acknowledged our recommendations regarding actively monitoring beyond a policy and informed us that they are at the start of building out a comprehensive management system. We recognise that smaller companies generally must make complex decisions about where to prioritise internal investment and we understand that the costs of supply chain transparency can be very high. That said, we believe that as a company grows its internal controls must also mature and develop to keep pace.

We hold the view that Yonex are slightly behind the curve but are encouraged that they have plans to address this and recognise the vital importance of improving in this area. We intend to continue this engagement and provide any support we can to help management remain ahead of stakeholder expectations.

Income statement

The following is the preliminary statement for the year to 31 January 2022 which was approved by the Board on 15 March 2022. No dividend is payable.

	For the year ended 31 January 2022			For the year ended 31 January 2021		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments	-	(182,288)	**(182,288)**	-	158,024	158,024
Currency gains (note 2)	-	4,612	**4,612**	-	1,077	1,077
Income	7,436	-	**7,436**	5,587	-	5,587
Investment management fee (note 3)	(4,048)	-	**(4,048)**	(3,514)	-	(3,514)
Other administrative expenses	(684)	-	**(684)**	(557)	-	(557)
Net return before finance costs and taxation	2,704	(177,676)	**(174,972)**	1,516	159,101	160,617
Finance costs of borrowings (note 4)	(1,064)	-	**(1,064)**	(1,098)	-	(1,098)
Net return on ordinary activities before taxation	1,640	(177,676)	**(176,036)**	418	159,101	159,519
Tax on ordinary activities	(744)	-	**(744)**	(559)	-	(559)
Net return on ordinary activities after taxation	**896**	**(177,676)**	**(176,780)**	(141)	159,101	158,960
Net return per ordinary share (note 6)	**0.29p**	**(56.95p)**	**(56.66p)**	(0.05p)	55.96p	55.91p

The total column of this statement is the profit and loss account of the Company. The supplementary revenue and capital return columns are prepared under guidance published by the Association of Investment Companies.

All revenue and capital items in this statement derive from continuing operations.

A Statement of Comprehensive Income is not required as all gains and losses of the Company have been reflected in the above statement.

Balance sheet

	At 31 January 2022		At 31 January 2021	
	£'000	£'000	£'000	£'000
Fixed assets				
Investments held at fair value through profit or loss (note 7)		610,857		750,943
Current assets				
Debtors	2,604		2,158	
Cash and cash equivalents	33,505		10,438	
	36,109		12,596	
Creditors				
Amounts falling due within one year (note 8)	(3,212)		(2,288)	
Net current assets		32,897		10,308
Total assets less current liabilities		643,754		761,251
Creditors				
Amounts falling due after more than one year (note 8)		(91,102)		(63,199)
Net assets		552,652		698,052
Capital and reserves				
Share capital		6,285		6,026
Share premium account		260,270		229,149
Capital redemption reserve		21,521		21,521
Capital reserve		268,408		446,084
Revenue reserve		(3,832)		(4,728)
Shareholders' funds		552,652		698,052
Net asset value per ordinary share		175.9p		231.7p
Ordinary shares in issue (note 9)		314,252,485		301,292,485

Statement of changes in equity

For the year ended 31 January 2022

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve* £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 February 2021	6,026	229,149	21,521	446,084	(4,728)	**698,052**
Ordinary shares issued (note 9)	259	31,121	-	-	-	**31,380**
Net return on ordinary activities after taxation	-	-	-	(177,676)	896	**(176,780)**
Shareholders' funds at 31 January 2022	**6,285**	**260,270**	**21,521**	**268,408**	**(3,832)**	**552,652**

For the year ended 31 January 2021

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve* £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 February 2020	5,591	174,208	21,521	286,983	(4,587)	**483,716**
Ordinary shares issued (note 9)	435	54,941	-	-	-	**55,376**
Net return on ordinary activities after taxation	-	-	-	159,101	(141)	**158,960**
Shareholders' funds at 31 January 2021	**6,026**	**229,149**	**21,521**	**446,084**	**(4,728)**	**698,052**

* The capital reserve balance at 31 January 2022 includes investment holding gains of £55,061,000 (31 January 2021 – gains of £259,841,000).

Cash flow statement

	For the year ended 31 January 2022 £'000	For the year ended 31 January 2022 £'000	For the year ended 31 January 2021 £'000	For the year ended 31 January 2021 £'000
Cash flows from operating activities				
Net return on ordinary activities before taxation	(176,036)		159,519	
Net losses/(gains) on investments	182,288		(158,024)	
Currency gains	(4,612)		(1,077)	
Finance costs of borrowings	1,064		1,098	
Overseas withholding tax	(677)		(572)	
(Increase)/decrease in debtors, accrued income and prepaid expenses	(591)		22	
(Decrease)/increase in creditors	(220)		352	
Cash inflow from operations		1,216		1,318
Interest paid		(982)		(1,142)
Net cash inflow from operating activities		234		176
Cash flows from investing activities				
Acquisitions of investments	(132,308)		(170,441)	
Disposals of investments	90,619		107,971	
Net cash outflow from investing activities		(41,689)		(62,470)
Shares issued	31,995		54,762	
Bank loans repaid	-		(38,489)	
Bank loans drawn down	32,667		50,359	
Net cash inflow from financing activities		64,662		66,632
Increase in cash and cash equivalents		23,207		4,338
Exchange movements		(140)		364
Cash and cash equivalents at 1 February		10,438		5,736
Cash and cash equivalents at 31 January*		33,505		10,438

* Cash and cash equivalents represent cash at bank and deposits repayable on demand.

Baillie Gifford Shin Nippon PLC

List of Investments at 31 January 2022

Name	Business	2022 Value £'000	2022 % of total assets	Absolute† Performance %	2021 Value £'000
Jeol	Manufacturer of scientific equipment	19,044	3.0	34.2	16,725
Katitas	Real estate services	18,818	2.9	3.6	16,605
Descente	Manufactures athletic clothing	17,512	2.7	95.6	8,854
Litalico	Provides employment support and learning support services for people with disabilities	17,425	2.7	45.0	12,131
Snow Peak	Designs & manufactures outdoor lifestyle goods	17,097	2.7	141.7	9,343
Sho-Bond	Infrastructure reconstruction	16,518	2.6	4.4	10,823
Megachips	Electronic components	16,415	2.5	26.5	16,254
Shoei	Manufactures motor cycle helmets	14,971	2.3	(2.9)	17,838
Raksul	Internet based services	14,841	2.3	(18.2)	19,832
Tsugami	Manufacturer of automated machine tools	14,359	2.2	(27.4)	22,608
Technopro Holdings	IT staffing	14,269	2.2	3.4	11,716
Torex Semiconductor	Semiconductor company	14,020	2.2	76.6	7,543
Infomart	Internet platform for restaurant supplies	12,525	1.9	(31.8)	16,169
GMO Payment Gateway	Online payment processing	12,520	1.9	(38.5)	21,644
Tsubaki Nakashima	Industrial machinery	11,275	1.8	11.3	3,714
MatsukiyoCocokara & Co	Retail company	11,067	1.7	(22.0)	12,177
Nifco	Value-added plastic car parts	10,837	1.7	(14.2)	11,554
MonotaRO	Online business supplies	10,499	1.6	(33.8)	16,360
eGuarantee	Guarantees trade receivables	10,002	1.6	(24.6)	14,017
OSG	Manufactures machine tool equipment	9,915	1.5	1.0	10,001
Top 20		**283,929**	**44.0**		
Horiba	Manufacturer of measuring instruments	9,719	1.5	(15.3)	14,708
Harmonic Drive	Robotic components	9,715	1.5	(46.6)	9,961
Noritsu Koki	Holding company with interests in biotech and agricultural products	9,440	1.5	(8.6)	10,284
Nihon M&A Center	M&A advisory services	9,201	1.4	(45.0)	17,639
Cosmos Pharmaceuticals	Drugstore chain	8,942	1.4	(16.3)	12,260
Bengo4.com	Online legal consulation	8,883	1.4	(62.1)	24,830
Cybozu	Develops and markets internet and intranet application software for businesses	8,817	1.4	(49.9)	10,830
Wealthnavi	Digital robo wealth-management	8,795	1.4	(40.5)	8,710
Nabtesco	Robotic components	8,622	1.3	(28.1)	6,752
Iriso Electronics	Specialist auto connectors	8,590	1.3	(8.7)	9,327
Outsourcing	Employment placement services	8,423	1.3	(5.2)	19,359
Healios K.K.	Regenerative medicine	8,410	1.3	(40.2)	8,078
Nakanishi	Dental equipment	8,378	1.3	(4.5)	8,737
KH Neochem	Chemical manufacturer	8,172	1.3	17.8	7,098
Weathernews	Weather information services	7,705	1.2	50.8	2,554
Enechange	IT service management company	7,581	1.2	(24.9)[#]	-
Spiber[u]	Synthetic spider silk	7,116	1.1	(2.0)[#]	-
Peptidream	Drug discovery and development platform	6,844	1.1	(68.8)	10,196
Anest Iwata	Manufactures compressors and painting machines	6,658	1.0	(34.6)	8,729
GA Technologies	Interactive media and services	6,282	1.0	(67.8)	16,983
Inter Action Corporation	Semiconductor equipment	6,193	1.0	(25.0)	5,327
Kumai Chemical	Specialised agrochemicals manufacturer	5,986	0.9	(13.4)	7,017
WDB Holdings	Human resource services	5,953	0.9	(2.8)	6,200
M3	Online medical services	5,733	0.9	(54.3)	20,647
Optex	Infrared detections devices	5,606	0.9	(26.0)	6,612
Seria	Discount retailer	5,533	0.9	(25.4)	7,240
Yonex	Sporting goods	5,497	0.9	12.3	3,673
SIIX	Out-sources overseas production	5,448	0.9	(19.6)	4,970
Poletowin Pitcrew	Game testing and internet monitoring	5,399	0.8	(23.9)	7,187
oRo	Develops and provides enterprise planning software	5,341	0.8	(40.9)	8,482

Baillie Gifford Shin Nippon PLC

Name	Business	2022 Value £'000	2022 % of total assets	Absolute† Performance %	2021 Value £'000
Toyo Tanso	Electronics company	5,301	0.8	(2.5)#	-
Gojo & Company Inc Class D Preferred u	Diversified financial services	5,266	0.8	8.1	4,869
Nippon Ceramic	Electronic component manufacturer	5,246	0.8	(15.1)	5,531
Kitanotatsujin	Online retailer	5,212	0.8	(63.9)	18,429
Gumi	Mobile games developer	4,942	0.8	(41.5)	8,724
Findex	Healthcare software developer	4,742	0.7	(21.1)	6,048
Akatsuki	Mobile games developer	4,732	0.7	(47.1)	9,108
Uzabease	Financial data services	4,716	0.7	(72.8)	13,497
Lifenet Insurance	Online life insurance	4,690	0.7	(57.3)	3,940
Brainpad	Business data analysis	4,604	0.7	(23.6)	7,784
Kitz	Industrial valve manufacturer	4,520	0.7	5.1	4,392
Moneytree K.K. Class B Preferred u	AI based fintech platform	4,234	0.7	(13.4)	4,889
Asahi Intecc	Specialist medical equipment	3,984	0.6	(47.2)	7,573
Pigeon	Baby care products	3,742	0.6	(54.6)	4,659
Nikkiso	Industrial pumps and medical equipment	3,730	0.6	(20.6)	4,358
Locondo	E-commerce services provider	3,722	0.6	(44.5)	6,729
Daikyonishikawa	Automobile part manufacturer	3,529	0.5	(26.3)	4,976
Kamakura Shinso	Information processing company	3,455	0.5	(54.9)#	-
Freakout Holdings	Digital marketing technology	3,309	0.5	42.9	1,485
Broadleaf	Online platform for buying car parts	2,930	0.5	(47.9)	7,595
Crowdworks	Crowd sourcing services	2,903	0.5	(48.9)	5,780
Calbee	Branded snack foods	2,891	0.4	(19.6)	3,649
Istyle	Beauty product review website	2,383	0.4	(57.4)	7,395
CyberAgent	Japanese internet advertising and content	2,184	0.3	(24.6)	3,683
Demae-Can	Online meal delivery service	1,942	0.3	(74.6)	23,661
Aeon Delight	Shopping mall maintenance	1,797	0.3	7.8	3,340
Shima Seiki	Machine industry company	1,082	0.2	(5.0)#	-
JP Holdings	Operates child-care facilities	1,002	0.2	(22.4)	4,148
Sato Holdings	Barcode and RFID technology	621	0.1	(12.1)	3,924
Modalis Therapeutics	Healthcare technology	535	0.1	(86.1)	2,311
Total investments		**610,857**	**94.9**		
Net liquid assets*		**32,897**	**5.1**		
Total assets		**643,754**	**100.0**		
Bank loans		**(91,102)**	**(14.2)**		
Shareholders' funds		**552,652**	**85.8**		

† Absolute performance (in sterling terms) has been calculated on a total return basis over the period 1 February 2021 to 31 January 2022.

Source: Baillie Gifford/Statpro and relevant underlying data index providers. See disclaimer at end of this document.

Figures relate to part period returns where the investment has been purchased in the period.

u Unlisted holding (private company).

* See Glossary of Terms and Alternative Performance Measures at the end of this announcement.

Past performance is not a guide to future performance.

Notes to the Financial Statements

1. The Financial Statements for the year to 31 January 2022 have been prepared in accordance with FRS 102 ‘The Financial Reporting Standard applicable in the UK and Republic of Ireland’ on the basis of the accounting policies set out in the Annual Report and Financial Statements for the year ended 31 January 2022.

2.

Currency (losses)/gains	31 January 2022 £’000	31 January 2021 £’000
Exchange differences on bank loans	**4,752**	713
Other exchange differences	**(140)**	364
	4,612	1,077

3.

Investment management fee – all charged to revenue	31 January 2022 £’000	31 January 2021 £’000
Investment management fee	**4,048**	3,514

Baillie Gifford & Co Limited, a wholly owned subsidiary of Baillie Gifford & Co, has been appointed as the Company’s Alternative Investment Fund Manager (‘AIFM’) and Company Secretaries. Baillie Gifford & Co Limited has delegated portfolio management services to Baillie Gifford & Co. Dealing activity and transaction reporting have been further sub-delegated to Baillie Gifford Overseas Limited and Baillie Gifford Asia (Hong Kong) Limited.

The Investment Management Agreement sets out the matters over which the Managers have authority in accordance with the policies and directions of, and subject to restrictions imposed by, the Board. The Management Agreement is terminable on not less than six months’ notice. Compensation fees would only be payable in respect of the notice period if termination were to occur sooner. The annual management fee for the year to 31 January 2022 was 0.75% on the first £50m of net assets, 0.65% on the next £200m of net assets and 0.55% on the remainder. The fees are calculated and paid on a quarterly basis.

4. The Company paid interest of £48,000 (2021 - £57,000) in respect of yen deposits held by the custodian bank.

5. No dividend will be declared.

6.

Net return per ordinary share	31 January 2022 £’000	31 January 2021 £’000
Revenue return	**0.29p**	(0.05p)
Capital return	**(56.95p)**	55.96p
Total return	**(56.66p)**	55.91p

The returns per ordinary share set out above are based on net revenue gain of £896,000 (2021 – loss of £141,000) and net capital loss of £177,676,000 (2021 – gain of £159,101,000) and on 311,992,773 ordinary shares (2021 – 284,337,704), being the weighted average number of ordinary shares in issue during the year. There are no dilutive or potentially dilutive shares in issue.

7. **Fixed Assets - Investments**

Investments in securities are financial assets designated at fair value through profit or loss. In accordance with Financial Reporting Standard 102, the tables provide an analysis of these investments based on the fair value hierarchy described below, which reflects the reliability and significance of the information used to measure their fair value.

Fair Value Hierarchy

The fair value hierarchy used to analyse the basis on which the fair values of financial instruments held at fair value through the profit or loss account are measured is described below. Fair value measurements are categorised on the basis of the lowest level input that is significant to the fair value measurement.

Level 1 – using unadjusted quoted prices for identical instruments in an active market;

Level 2 – using inputs, other than quoted prices included within Level 1, that are directly or indirectly observable (based on market data); and

Level 3 – using inputs that are unobservable (for which market data is unavailable).

As at 31 January 2022	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	594,241	-	-	**594,241**
Unlisted securities	-	-	16,616	**16,616**
Total financial asset investments	594,241	-	16,616	610,857

As at 31 January 2021	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	741,185	-	-	**741,185**
Unlisted securities	-	-	9,758	**9,758**
Total financial asset investments	741,185	-	9,758	750,943

8. The bank loans are stated after deducting the arrangement fees of £174,000 which are amortised over the terms of the loans. Amortisation of the arrangement fees during the year was £36,000 (2021 – £33,000).

Borrowing facilities

At 31 January 2022
ING Bank N.V. – 3 year ¥7,000 million loan at 1.400% maturing 27 November 2023.
ING Bank N.V. – 3 year ¥5,000 million loan at 1.400% maturing 8 November 2024.
ING Bank N.V. – 7 year ¥2,100 million loan at 1.693% maturing 18 December 2024.
At 31 January 2021
ING Bank N.V. – 3 year ¥7,000 million loan at 1.400% maturing 27 November 2023.
ING Bank N.V. – 7 year ¥2,100 million loan at 1.693% maturing 18 December 2024.

During the year the Company drew down a 3 year ¥5,000 million loan with ING Bank N.V.

The fair value of the bank loans at 31 January 2022 was £91,174,000 (31 January 2021 - £63,740,000). See Glossary of Terms and Alternative Performance Measures at the end of this announcement.

9. At 31 January 2022 the Company had authority to buy back 45,980,698 shares. No shares were bought back during the year (2021 – nil). Share buy-backs are funded from the capital reserve.

During the year the Company issued 12,960,000 shares on a non pre-emptive basis at a premium to net asset value for net proceeds of £31,380,000 (2021 – 21,715,000 shares for net proceeds of £55,376,000). Between 1 February and 11 March 2022 the Company issued no further shares.

10.

	31 January 2021 £'000	Cash Flows £'000	Exchange Movement £'000	Other Non-cash changes £'000	31 January 2022 £'000
Cash and cash equivalents	10,438	23,207	(140)	-	**33,505**
Loans due in more than one year	(63,199)	(32,618)	4,752	(37)	**(91,102)**
	(52,761)	**(9,411)**	**4,612**	**(37)**	**(57,597)**

11. The Annual Report and Financial Statements will be available on the Company's website shinnippon.co.uk† on or around 5 April 2022.

12. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 January 2022 or 2021 but is derived from those accounts. Statutory accounts for 2021 have been delivered to the Registrar of Companies, and those for 2022 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

† Neither the contents of the Company's website nor the contents of any website accessible from hyperlinks on the Company's website (or any other website) is incorporated into, or forms part of, this announcement.

Glossary of Terms and Alternative Performance Measures (APM)

An alternative performance measure is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. The APMs noted below are commonly used measures within the investment trust industry and serve to improve comparability between investment trusts.

Total Assets

Total assets less current liabilities, before deduction of all borrowings.

Net Asset Value

Also described as shareholders' funds, Net Asset Value (NAV) is the value of total assets less liabilities (including borrowings). The NAV per share is calculated by dividing this amount by the number of ordinary shares in issue.

Net Asset Value (Borrowings at Book Value)

Borrowings are valued at adjusted net issue proceeds. The Company's yen denominated loans are valued at their sterling equivalent and adjusted for their arrangement fees. The value of the borrowings on this basis is set out above.

Net Asset Value (Borrowings at Fair Value) (APM)

This is a widely reported measure across the investment trust industry. Borrowings are valued at an estimate of their market worth. The Company's yen denominated loans are fair valued using methodologies consistent with International Private Equity and Venture Capital Valuation ('IPEV') guidelines. The value of the borrowings on this basis is set out above. A reconciliation from Net Asset Value (with borrowings at book value) to Net Asset Value per ordinary share (with borrowings at fair value) is provided below.

	31 January 2022	31 January 2021
Net Asset Value per ordinary share (borrowings at book value)	175.9p	231.7p
Shareholders' funds (borrowings at book value)	£552,652,000	£698,052,000
Add: book value of borrowings	£91,102,000	£63,199,000
Less: fair value of borrowings	(£91,174,000)	(£63,740,000)
Shareholders' funds (borrowings at fair value)	£552,580,000	£697,511,000
Shares in issue at year end	314,252,485	301,292,485
Net Asset Value per ordinary share (borrowings at fair value)	175.8p	231.5p

Premium/discount (APM)

As stockmarkets and share prices vary, an investment trust's share price is rarely the same as its NAV. When the share price is lower than the NAV per share it is said to be trading at a discount. The size of the discount is calculated by subtracting the share price from the NAV per share and is usually expressed as a percentage of the NAV per share. If the share price is higher than the NAV per share, this situation is called a premium.

	2022 NAV (book)	2022 NAV (fair)	2021 NAV (book)	2021 NAV (fair)
Closing NAV per share	175.9p	175.8p	231.7p	231.5p
Closing share price	174.4p	174.4p	244.0p	244.0p
(Discount)/premium	**(0.9%)**	**(0.8%)**	**5.3%**	**5.4%**

Ongoing Charges (APM)

The total expenses (excluding borrowing costs) incurred by the Company as a percentage of the average net asset value (with debt at fair value). The ongoing charges have been calculated on the basis prescribed by the Association of Investment Companies.

A reconcilliation from the expenses detailed in the Income Statement above is provided below:

	31 January 2022	31 January 2021
Investment management fee	£4,048,000	£3,514,000
Other administrative expenses	£684,000	£557,000
Total expenses (a)	**£4,732,000**	**£4,071,000**
Average daily cum-income net asset value (with debt at fair value) (b)	£719,124,000	£573,387,000
Ongoing charges (a) ÷ (b) (expressed as a percentage)	**0.66%**	**0.71%**

Total Return (APM)

The total return is the return to shareholders after reinvesting the net dividend on the date that the share price goes ex-dividend. The Company does not pay a dividend, therefore, the one year total returns for the share price and NAV per share at book and fair value are the same as the percentage movements in the share price and NAV per share at book and fair value as detailed at the start of this report.

Gearing (APM)

At its simplest, gearing is borrowing. Just like any other public company, an investment trust can borrow money to invest in additional investments for its portfolio. The effect of the borrowing on the shareholders' assets is called 'gearing'. If the Company's assets grow, the shareholders' assets grow proportionately more because the debt remains the same. But if the value of the Company's assets falls, the situation is reversed. Gearing can therefore enhance performance in rising markets but can adversely impact performance in falling markets.

Gearing represents borrowings at book less cash and cash equivalents expressed as a percentage of shareholders' funds.

Potential gearing is the Company's borrowings expressed as a percentage of shareholders' funds.

Equity gearing is the Company's borrowings adjusted for cash, expressed as a percentage of shareholders' funds.

	2022 Gearing† £'000	2022 Potential Gearing# £'000	2021 Gearing† £'000	2021 Potential Gearing# £'000
Borrowings (a)	91,102	91,102	63,199	63,199
Cash and cash equivalents (b)	32,028	-	10,088	-
Shareholders' funds (c)	552,652	552,652	698,052	698,052
	10.7%	**16.5%**	**7.6%**	**9.1%**

† Gearing: ((a) – (b)) ÷ (c), expressed as a percentage.
# Potential gearing: (a) ÷ (c), expressed as a percentage.

Leverage

For the purposes of the Alternative Investment Fund Managers (AIFM) Regulations, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company's exposure and its net asset value and can be calculated on a gross and a commitment method. Under the gross method, exposure represents the sum of the Company's positions after the deduction of sterling cash balances, without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated without the deduction of sterling cash balances and after certain hedging and netting positions are offset against each other.

Active Share (APM)
Active share, a measure of how actively a portfolio is managed, is the percentage of the listed equity portfolio that differs from its comparative index. It is calculated by deducting from 100 the percentage of the portfolio that overlaps with the comparative index. An active share of 100 indicates no overlap with the index and an active share of zero indicates a portfolio that tracks the index.

Net Liquid Assets

Net liquid assets comprise current assets less current liabilities, excluding borrowings.

Share Split

A share split (or stock split) is the process by which a company divides its existing shares into multiple shares. Although the number of shares outstanding increases, the total value of the shares remains the same with respect to the pre-split value.

Unlisted (Private) Company
An unlisted (private) company means a company whose shares are not available to the general public for trading and not listed on a stock exchange.

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