

This document is issued by Baillie Gifford & Co Limited (the 'Manager') in order to make certain particular information available to investors in the Alternative Investment Fund (the 'Company') noted below before they invest, in accordance with the requirements of the Financial Conduct Authority's Rules implementing the Alternative Investment Fund Managers Directive in the United Kingdom. It is made available to investors by being available at [www.shinnippon.co.uk](http://www.shinnippon.co.uk). The Manager is authorised and regulated by the Financial Conduct Authority.

Potential investors in the Company's shares may wish to consult their stockbroker, bank manager, solicitor, accountant or other financial adviser before investing in the Company.

# **Baillie Gifford Shin Nippon PLC**

## **INVESTOR DISCLOSURE DOCUMENT**

### **IMPORTANT INFORMATION**

#### **Regulatory status of the Company**

Baillie Gifford Shin Nippon PLC ('Shin Nippon') is an 'alternative investment fund' ('AIF') for the purposes of the EU Alternative Investment Fund Managers Directive (Directive 2011/61/EU) (the 'AIFM Directive').

The Company's shares are listed on the premium segment of the Official List of the UK Listing Authority and are admitted to trading on the main market of the London Stock Exchange. The Company is subject to its articles of association, the Listing Rules, the Disclosure and Transparency Rules, the UK Corporate Governance Code and the Companies Act 2006. The Company is listed on the London Stock Exchange and is not authorised or regulated by the Financial Conduct Authority.

The provisions of the Company's articles of association are binding on the Company and its shareholders. The articles of association set out the respective rights and restrictions attaching to the Company's shares. These rights and restrictions apply equally to all shareholders. All shareholders are entitled to the benefit of, and are bound by and are deemed to have notice of, the Company's articles of association. The Company's articles of association are governed by Scots law.

### **Limited purpose of this document**

This document is not being issued for any purpose other than to make certain, required regulatory disclosures to investors and, to the fullest extent permitted under applicable law and regulations, the Company and its Directors will not be responsible to persons other than the Company's shareholders for their use of this document, nor will they be responsible to any person (including the Company's shareholders) for any use which they may make of this document other than to inform a decision to invest in shares in the Company.

This document does not constitute, and may not be used for the purposes of, an offer or solicitation to buy or sell, or otherwise undertake investment activity in relation to, the Company's shares.

**This document is not a prospectus and it is not intended to be an invitation or inducement to any person to engage in any investment activity. This document may not include (and it is not intended to include) all the information which investors and their professional advisers may require for the purpose of making an informed decision in relation to an investment in the Company and its shares.**

### **No advice**

The Company and its Directors are not advising any person in relation to any investment or other transaction involving shares in the Company. Recipients must not treat the contents of this document or any subsequent communications from the Company, or any of its affiliates, officers, directors, employees or agents, as advice relating to financial, investment, taxation, accounting, legal, regulatory or any other matters. Prospective investors must rely on their own professional advisers, including their own legal advisers and accountants, as to legal, tax, accounting, regulatory, investment or any other related matters concerning the Company and an investment in shares.

**Potential investors in the Company's shares should consult their stockbroker, bank manager, solicitor, accountant or other financial adviser before investing in the Company.**

### **Overseas investors**

The distribution of this document in certain jurisdictions may be restricted and accordingly persons into whose possession this document comes are required to inform themselves about and to observe such restrictions. The shares have not been, and will not be, registered under the United States Securities Act of 1933 (as amended) or under any of the relevant securities laws of Canada, Australia or Japan. Accordingly, the shares may not (unless an exemption from such Act or such laws is available) be offered, sold or delivered, directly or indirectly, in or into the USA, Canada, Australia or Japan. The Company is not registered under the United States Investment Company Act of 1940 (as amended) and investors are not entitled to the benefits of such Act.

Prospective investors must inform themselves as to (a) the legal requirements within their own countries for the purchase, holding, transfer or other disposal of shares; (b) any foreign exchange restrictions applicable to the purchase, holding, transfer or other disposal of shares which they might encounter; and (c) the income and other tax consequences which may apply in their own countries as a result of the purchase, holding, transfer or other disposal of shares.

## THE COMPANY

### Investment Objective and Policy

Baillie Gifford Shin Nippon's objective is to pursue long term capital growth through investment principally in small Japanese companies which are believed to have above average prospects for growth. The Board and Managers currently consider a small company to be one that has either market capitalisation or turnover of less than ¥150 billion. The Company is classified by the AIC within its Japanese Smaller Companies sector.

The portfolio is constructed through the identification of individual companies which offer long term growth potential, typically over a three to five year horizon. The portfolio is actively managed and does not seek to track the comparative index, hence a degree of volatility against the index is inevitable.

In constructing the equity portfolio a spread of risk is achieved by diversifying the portfolio through investment in 40 to 80 holdings. Although sector concentration and the thematic characteristics of the portfolio are carefully monitored, there are no maximum limits to deviation from comparative index stock or sector weights.

Holdings are limited to 5% of total assets at time of purchase. Any holding that, as a result of performance exceeds 5% of total assets is subject to particular scrutiny. A holding greater than 5% will continue to be held where the Managers are convinced of the ongoing merits of the investment case.

The Company may invest in UK and Overseas domiciled pooled funds, including UK listed investment trusts, that invest principally in Japanese securities. On acquisition, no more than 15% of the Company's gross assets will be invested in such companies or funds.

The portfolio is expected to consist of predominantly listed equity holdings, however unlisted investments may also be held. Holdings of unlisted investments shall not exceed 10% of the total assets of the Company in aggregate at time of purchase.

From time to time, fixed interest holdings, or non equity investments, may be held on an opportunistic basis. The Company may use derivatives which will be principally, but not exclusively, for the purpose of efficient portfolio management (i.e. for the purpose of reducing, transferring or eliminating investment risk in its investments, including protection against currency risks).

The Company recognises the long term advantages of gearing. Although the Company may have maximum equity gearing of 50% of shareholders' funds, the Board would seek to have a maximum equity gearing level of 30% of shareholders' funds at the time of drawdown.

Borrowings are typically invested in securities when it is considered that investment grounds merit the Company taking a geared position to securities. Gearing levels, and the extent of equity gearing, are discussed by the Board and Managers at every Board meeting. The Managers are tasked with ensuring that gearing is managed efficiently and within the parameters set by the Board and any loan covenants.

As a closed-ended investment fund whose shares are admitted to the Official List under Chapter 15 of the Listing Rules, the Company is required to obtain the prior approval of its shareholders to any material change to its published investment policy. Accordingly, the Company will not make any material change to its published investment policy without the approval of its shareholders by ordinary resolution. The Company will announce any such change through a Regulatory Information Service.

Any change in investment strategy or investment policy which does not amount to a material change to our published investment policy may be made by the Company without shareholder approval.

### **Leverage**

As explained above, Shin Nippon may employ borrowings and derivatives as leverage.

The maximum level of leverage which the Alternative Investment Fund Manager ('AIFM') is entitled to employ on behalf of the Company is 250% under the gross method and 200% under the commitment method. In accordance with the investment management agreement, any changes to these limits will be agreed in advance between the AIFM and the Company.

The amount of leverage employed by the Company will be disclosed in the Company's Annual Report and Financial Statements.

### **Investment Strategy and Techniques**

The Investment Manager invests in 40–80 attractively valued smaller companies that they believe offer good growth opportunities.

Growth may come from innovative business models, disrupting traditional Japanese practises or market opportunities, such as growth from overseas.

The Investment Manager aims to take a three to five year view and the portfolio is managed by looking at the underlying investments rather than the comparative index, the MSCI Japan Small Cap Index, total return.

Baillie Gifford & Co Limited will update this document, as soon as reasonably practicable, to take account of material changes. Such changes will also be disclosed to existing shareholders in the following Annual Report and Financial Statements.

Any changes in information shall be deemed material if there is a substantial likelihood that a reasonable investor, becoming aware of such information, would reconsider its investment in the AIF, including because such information could impact an investor's ability to exercise its rights in relation to its investment, or otherwise prejudice the interests of one or more investors in the AIF.

## ADMINISTRATION AND MANAGEMENT OF THE COMPANY

### **The AIFM and Company Secretary**

Baillie Gifford & Co Limited is the authorised Alternative Investment Fund Manager ('AIFM') and Company Secretary of Shin Nippon. The annual management fee payable to the AIFM is 0.75% on the first £50m of net assets, 0.65% on the next £200m of net assets and 0.55% on the remaining net assets. Management fees are calculated and payable on a quarterly basis.

There is no additional secretarial fee. The provision of secretarial and administrative services is included in the management fee.

Baillie Gifford & Co Limited has delegated portfolio management services to Baillie Gifford & Co (the 'Investment Manager'). Baillie Gifford & Co Limited is a wholly-owned subsidiary of Baillie Gifford & Co. Baillie Gifford & Co Limited has also delegated various central services including accounting and administration, compliance and systems to Baillie Gifford & Co.

Baillie Gifford & Co has the regulatory permission and contractual arrangements in place to conduct discretionary investment management on behalf of the Company.

### **The Depositary**

The Bank of New York Mellon (International) Limited has been appointed as the Company's Depositary. The Depositary is responsible for the safekeeping of the Company's assets, monitoring the cash flows of the Company and must ensure that certain processes carried out by the AIFM are performed in accordance with the applicable rules and the constitutive documents of the Company. The Depositary acts as global custodian and may delegate safekeeping to one or more global sub-custodians (such delegation may include the powers of sub-delegation). The Bank of New York Mellon (International) Limited is also responsible for the safekeeping of the assets of the Company (the "Global Sub-Custodian"). The Global Sub-Custodian may sub-delegate safekeeping of assets in certain markets in which the Company may invest to various sub-delegates.

The Depositary has not entered into any arrangement contractually to discharge itself of liability in accordance with Article 21(13). We will notify shareholders of any changes with respect to the discharge by the Depositary of its liability in accordance with Article 21(13) through a Regulatory Information Service.

The annual fee payable to the Depositary is 0.015% of total assets.

### **The Auditor**

KPMG LLP provides audit services to the Company. The fees charged by the Auditor are computed inter alia on the time spent by the Auditor on the affairs of the Company.

**The Registrar**

Computershare Investor Services PLC has been appointed as the Company's Registrar. The Registrar's duties include the maintenance of the Company's register of shareholders and the processing of any transfer of shares.

Fees are based on the number of holders on the registers and number of transfers each year.

## SHAREHOLDER INFORMATION

### Annual Report and Financial Statements

Copies of the Company's latest annual and interim reports may be accessed at [www.shinnippon.co.uk](http://www.shinnippon.co.uk)

### Publication of net asset values

The latest net asset value of the Company may be accessed at [www.shinnippon.co.uk](http://www.shinnippon.co.uk)

### Valuation Policy

Investments are valued at their fair value. The fair value of listed investments is the last traded price which is equivalent to the bid price on Japanese markets. Unlisted investments are valued at fair value by the Directors following a detailed review and appropriate challenge of the valuations proposed by the Managers. The Managers' unlisted investment policy applies methodologies consistent with the International Private Equity and Venture Capital Valuation guidelines ('IPEV'). These methodologies can be categorised as follows: (a) market approach (price of recent investment, multiples, industry valuation benchmarks and available market prices); (b) income approach (discounted cash flows); and (c) replacement cost approach (net assets).

### Historical performance of the Company

Details of the Company's historical financial performance are provided in the Company's Annual Report and Financial Statements and monthly factsheets, which are available at [www.shinnippon.co.uk](http://www.shinnippon.co.uk)

Investors should note that past performance of the Company is not indicative of future performance. Investors may not get back the amount invested.

### Purchases and sales of shares by investors

The Company's shares are admitted to the Official List of the UKLA and to trading on the main market of the London Stock Exchange. Accordingly, the Company's shares may be purchased and sold on the main market of the London Stock Exchange.

The Company has authority to issue new shares or sell shares from treasury at a premium to net asset value. The Company's shares are not redeemable. While the Company will typically have shareholder authority to buy back shares, shareholders do not have the right to have their shares purchased by the Company.

**Fair treatment of investors**

The legal and regulatory regime to which the Company and the Directors are subject ensures the fair treatment of investors. The Listing Rules require that the Company treats all shareholders of the same class of shares equally.

In particular, as directors of a company incorporated in the United Kingdom, the Directors have certain statutory duties under the Companies Act 2006 with which they must comply. These include a duty upon each Director to act in the way she or he considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole.

No investor has a right to obtain preferential treatment in relation to their investment in the Company and the Company does not give preferential treatment to any investors.

The shares rank *Pari Passu*.



## RISK FACTORS

Shin Nippon is a listed UK Company. 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.

Shin Nippon 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.

Shin Nippon can borrow 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.

Shin Nippon can buy back its own shares. The risks from borrowing, referred to above, are increased when a trust 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.

Shin Nippon can make use of derivatives which may impact on its performance. Currently the company does not make use of derivatives.

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.

Shin Nippon's exposure to a single market and currency may increase risk.

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

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

## RISK MANAGEMENT

### **Risk profile**

*The Company will periodically disclose the current risk profile of the Company to investors. The Company will make this disclosure at [www.shinnippon.co.uk](http://www.shinnippon.co.uk) at the same time as it makes its Annual Report and Financial Statements available to investors or more frequently at its discretion.*

Assets consist mainly of listed securities and therefore the risk profile of the AIF incorporates market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk, credit risk and operational risk factors. Other factors which contribute to the risk profile relate to the ability of the AIF to borrow money to make further investments (leverage).

Limits are set for market risk and are monitored daily. Market risk stress testing comprises a number of market related scenarios and events relevant to the AIF's objectives and time horizon to analyse the impact on market risk limits. Limits are also in place for liquidity risk, credit risk and operational risk, with periodic stress testing performed as appropriate.

Further detail in relation to the nature and extent of the principal risks of the Company are described in the Shin Nippon Annual Report and Financial Statements.

No risk limits set by the AIFM have been exceeded in the period since 1 July 2014 or are likely to be exceeded.

### **Risk management systems**

*The Company will periodically disclose to investors the risk management systems which it employs to manage the risks which are most relevant to it. The Company will make this disclosure at [www.shinnippon.co.uk](http://www.shinnippon.co.uk) at the same time as it makes its Annual Report and Financial Statements available to investors or more frequently at its discretion.*

The AIFM has established a permanent risk management function to ensure that effective risk management policies and procedures are in place and to monitor compliance with risk limits. The AIFM has a risk policy which covers the risks associated with the AIF, and the adequacy and effectiveness of this policy is reviewed and approved at least annually. This review includes the risk management processes and systems and limits for each risk area.

For each relevant risk area, risk limits are set by the AIFM which take into account the objectives, strategy and risk profile of the AIF. These limits are monitored daily, and the sensitivity of the portfolio to key risks is undertaken periodically as appropriate to ascertain the impact of changes in key variables to the AIF. Exceptions from limits monitoring and stress testing are escalated to the AIFM along with remedial measures being taken.

### **Liquidity risk management**

The AIFM has a liquidity management policy in relation to the Company which is intended to ensure that the Company's investment portfolio maintains a level of liquidity which is appropriate to the Company's obligations. This policy involves an assessment by the AIFM of the prices or values at which it expects to be able to liquidate its assets over varying hypothetical periods in varying market conditions, taking into account the sensitivity of particular assets to particular market risks and other relevant factors.

Shares in the Company are not redeemable and shareholders do not have the right to require their shares to be purchased by the Company. Accordingly, the liquidity management policy ensures that the Company's investment portfolio is sufficiently liquid to meet the following principal obligations:

- the Company's operating and financing expenses: in practice, these expenses are covered in part by dividends received from the Company's investments; and
- the possible need to repay borrowings at short notice, which would require to be met by the sale of assets.

The liquidity management policy requires the AIFM to identify and monitor its investment in asset classes which are considered to be relatively illiquid. The majority of the Company's portfolio is invested in liquid equities and the portfolio is monitored on an ongoing basis to ensure that it is adequately diversified.

The liquidity management policy is reviewed and updated, as required, on at least an annual basis.

Investors will be notified, by way of a disclosure at [www.shinnippon.co.uk](http://www.shinnippon.co.uk) in the event of any material changes being made to the liquidity management systems and procedures or where any new arrangements for managing the Company's liquidity are introduced.

The Company will periodically disclose to investors the percentage of the Company's assets which are subject to special arrangements arising from their illiquid nature. The Company will make this disclosure at [www.shinnippon.co.uk](http://www.shinnippon.co.uk) at the same time as it makes its Annual Report and Financial Statements available to investors or more frequently at its discretion.

### **Professional negligence liability risks**

The requirement to cover potential liability risks arising from professional negligence is covered by the AIFM's own funds. Sufficient capital above the regulatory limit is held which is monitored by the Board of Baillie Gifford & Co Limited.

### **Brokerage Practices and Use of Dealing Commission**

Baillie Gifford & Co Limited appoints its affiliate Baillie Gifford & Co to conduct portfolio management services on behalf of the Company. An important element of Baillie Gifford & Co's portfolio management services includes the selection of brokers with whom orders can be placed to execute investment decisions on behalf of the Company.

From 1 January 2016, Baillie Gifford & Co trade with Brokers using execution-only commission rates. This is a change from the previous "bundled" format whereby commission, generated by the Company trading, as compensation for services they provide, was used to pay for both permitted research services and execution services. This removes any potential conflict of interest that might have arisen from the purchase of execution and research services, which were paid out of client dealing commission.

The execution-only commission includes the costs of access to each global market, the broker's ability to source liquidity, the use of alternative trading venues, the provision of risk capital, the capabilities of individual sales traders, and the provision of proprietary technology for trading programmes and algorithms.

Baillie Gifford & Co will now pay directly for research services under separate agreements.

### **Sustainability Risks**

The AIFM has adopted Baillie Gifford & Co's Governance and Sustainable Principles and Guidelines as its policy on integration of sustainability risks in investment decisions.

Baillie Gifford & Co believes that a company cannot be financially sustainable in the long run if its approach to business is fundamentally out of line with changing societal expectations. It defines 'sustainability' as a deliberately broad concept which encapsulates a company's purpose, values, business model, culture, and operating practices.

Baillie Gifford & Co's approach to investment is based on identifying and holding high quality growth businesses that enjoy sustainable competitive advantages in their marketplace. To do this it looks beyond current financial performance, undertaking proprietary research to build up an in-depth knowledge of an individual company and a view on its long-term prospects. This includes the consideration of sustainability factors (environmental, social and/or governance matters) which it believes will positively or negatively influence the financial returns of an investment. The likely impact on the return of the portfolio from a potential or actual material decline in the value of investment due to the occurrence of an environmental, social or governance event or condition will vary and will depend on several factors including but not limited to the type, extent, complexity and duration of an event or condition, prevailing market conditions and existence of any mitigating factors.

Whilst consideration is given to sustainability matters, there are no restrictions on the investment universe of the Company, unless otherwise stated within in its Objective & Policy. Baillie Gifford & Co can invest in any companies it believes could create beneficial long-term returns for investors. However, this might result in investments being made in companies that ultimately cause a negative outcome for the environment or society.

More detail on Baillie Gifford's approach to sustainability can be found in its Governance and Sustainability Principles and Guidelines document, available publicly at <https://www.bailliegifford.com/en/uk/about-us/governance-sustainability/>

**Key Information Document**

A Key Information Document is available by contacting us on 0800 917 2112 or by visiting [www.bailliegifford.com](http://www.bailliegifford.com)

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