



RNS Announcement: Preliminary Results

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## Baillie Gifford Shin Nippon PLC

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Legal Entity Identifier: X5XCIPCJQCSUF8H1FU83

The following is the results announcement for the year to 31 January 2021 which was approved by the Board on 16 March 2021.

### Results for the year to 31 January 2021

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**Over the year the Company's net asset value per share (after deducting borrowings at fair value†) increased by 34.0% compared to a 5.3% rise in the comparative index\* (the net asset value per share (after deducting borrowings at book value) increased by 33.9%). The share price increased by 43.2% as the shares moved from a discount of 1.4% to a premium of 5.4%.**

**In sterling terms over three years, the Company's comparative index is up 6.3%, whilst the net asset value (with borrowings at fair value†) and share price are up by 37.2% and 32.3% respectively.**

- Online legal portal Bengo4.com was the top positive contributor to performance, with its shares more than doubling over the past year.
- Japan's top online food delivery company Demae-Can and leading online drug marketing platform M3 were also among the top performers.
- While most online businesses benefitted from the pandemic, sectors like physical retail, travel and manufacturing were unsurprisingly hard hit as they experienced severe disruption due to a series of national and regional lockdowns.
- Detractors from performance included cosmetics retailer, Istyle, travel operator, H.I.S, and barcode maker, Sato Holdings.
- Among the new holdings purchased over the past year was GA Technologies, a disruptive and rapidly growing company that is making extensive use of technology to disrupt Japan's real estate market.
- The pandemic has laid bare the inadequacies of corporate Japan and in the process, provided a strong tailwind for smaller companies that are at the forefront of these structural changes.

\* The Company's comparative index for the year to 31 January 2021 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 2021 the Company had total assets of £761.3m (before deduction of bank loans of £63.2m).

The Company is managed by Baillie Gifford & Co, an Edinburgh based fund management group with around £319 billion under management and advice as at 11 March 2021.

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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 [www.shinnippon.co.uk](http://www.shinnippon.co.uk).

See disclaimer at the end of this announcement.

16 March 2021

For further information please contact:

Alex Blake, Baillie Gifford & Co

Tel: 0131 275 2859

Mark Knight, Four Communications

Tel : 0203 697 4200 or 07803 758810

## Chairman's Statement

I am delighted to report that Shin Nippon has enjoyed another excellent year. In a year that was overshadowed by the Covid-19 pandemic, the excellent stock picking skills of our Managers and the resulting resilience of our portfolio have shone through. Over this period, Shin Nippon's net asset value per share\* ('NAV') rose by 34.0% and its share price by 43.2% versus the comparative index (MSCI Japan Small Cap Index, total return in sterling terms) return of 5.3%. This was once again another period of strong performance in both absolute and relative terms.

Although last year's performance, when taken in isolation shows good results, your Board continue to review the Company's performance over a rolling three year period. Over this period, the Company's NAV rose by 37.2% and its share price by 32.3% versus the comparative index return of 6.3%.

In the Managers' Report below you will find a more detailed explanation of the Company's performance and some of the holdings. It is pleasing that the Managers' stock picking approach, which aims to identify young, entrepreneurial and disruptive Japanese companies, has produced such impressive results over the years.

### Share Issuance

At the beginning of the year the shares were trading at a 1.4% discount to NAV. There were considerable fluctuations between share price and NAV during the year but from late-summer onwards the shares traded at a more consistent premium. At 31 January 2021 this was 5.4%.

Mindful of this premium your Board actively seeks to reduce the imbalance between buyers and sellers by issuing shares. During the year the Company issued 21,715,000 shares (7.8% of share capital as at 31 January 2020) at a premium to NAV raising £55.4m of new capital. Due to the strong demand for the Company's shares, a general meeting was held on 14 January 2021 to seek shareholder approval for additional issuance on a non pre-emptive basis (up to 10% of issued share capital).

In addition to helping manage the premium to NAV by approving these share issuances, your Board continues to recognise that by increasing the size of the Company this in turn helps to improve liquidity, reduces costs per share and increases the appeal of the Company to a wider range of shareholders.

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## **Borrowings**

The Managers, with the Board's support, continue to use gearing to enhance portfolio performance. Throughout the year gearing fell only marginally from 10% to 8%. During the year the Company's loans of ¥3.35bn and ¥2.0bn (with interest rates of 2.2% and 1.3%, respectively) both expired. These were replaced by a new ¥7.0bn loan over three years at an interest rate of 1.4%. Total borrowings therefore increased by ¥1.65bn (£11.5m) to ¥9.1bn (£63.2m).

During the year the yen slightly weakened against sterling by 0.6%. The Company undertook no currency hedging during the year and has no plans to do so.

## **Revenue**

Revenue return per share decreased from a gain of 0.28p to a loss of 0.05p. The portfolio income reduced by 7.0% whilst the management fee increased by 16.2% due to the uplift in NAV. Other expenses fell by 0.5% but loan finance costs rose by 6.4% due to the increase in borrowings and exchange movements.

I am pleased to report that with the growth in assets over the year from £483.7m to £698.1m, the impact of the tiered management fee has driven a reduction in our ongoing charges, which fell from 0.73% to 0.71%.

## **Covid-19**

2020 was blighted by Covid-19 throughout the world. Shin Nippon was not immune to its effects but due to the quality and nature of its portfolio holdings the effects were less than one might have expected.

Throughout the world there has clearly been large scale disruption and a dreadful loss of life and livelihoods. With the roll-out of a global vaccination programme we can start to see light at the end of the tunnel. The pandemic has accelerated the need for change and has brought forward innovative and disruptive technologies to help companies adapt and thrive. Young Japanese companies for the most part are good at embracing such change. Our Portfolio Manager, Praveen Kumar, discusses this further in his report but as we get closer to a new beginning, your Company is well positioned to benefit from these structural changes.

## **AGM**

There will be the usual resolutions regarding share capital put to the meeting. Authority will be sought to approve share issuance on a non pre-emptive basis of up to 10% of issued share capital. Any shares issued would be at a premium to NAV and enhance net asset value for existing shareholders. There will also be a resolution to authorise the approval of share buy backs should the shares start trading at a substantial discount either in absolute terms or in relation to the Company's peers. As with issuing shares at a premium, buying back shares at a discount enhances the net asset value attributable to all existing shareholders.

In light of continuing Government Covid-19 restrictions, shareholders will not be able to attend the AGM as the meeting will be held with the minimum number to ensure it is quorate. I encourage shareholders to submit their votes by proxy before the applicable deadline ahead of the meeting and to submit any questions for the Board or Managers in advance by email to [trustenquiries@bailliegifford.com](mailto:trustenquiries@bailliegifford.com) or by calling 0800 917 2112 (Baillie Gifford may record your call). Developments will be closely monitored and any changes will be announced to the London Stock Exchange regulatory news service and made available at [shinnippon.co.uk](http://shinnippon.co.uk).

## **Governance**

Merryn Somerset Webb will be retiring from the Board in May 2022. A recruitment process is underway to find her successor. I hope that an appointment will be made towards the end of this year to enable a period of overlap and to ensure a smooth transition.

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## **Outlook**

Unfortunately, our planned Board visit to Japan in November last year could not take place and so our opportunity for face to face dialogue with some of our investee companies will need to wait for another day. Similarly, with international spectators likely to be excluded it is unclear as to how this summer's Olympics will be affected. What could and would have been an opportunity for Japan to shine on the global stage, with all the benefits that would bring, is now uncertain. What is clear though is the determination of our Managers to continue in their quest to find good quality companies with the ability to challenge norms, short circuit bureaucracy and deliver positive growth and returns for the Company's shareholders.

The pandemic is likely to usher in a raft of structural changes in the way Japan does business. Flexible working and new technologies like digital contracts are being developed and there are strong signs of recovery in some manufacturing sectors driven mainly by China. Tourism and travel have yet to experience any return to some sort of normalisation but with the vaccination programme now underway this too should recover soon.

There are still many challenges ahead but after a torrid year with Covid-19 the fog is now clearing and the road ahead more visible. Our team of dedicated Japanese experts, led by Praveen, view the future with optimism and look forward to delivering further capital growth in the year to January 2022.

M Neil Donaldson

Chairman

16 March 2021

\* After deducting borrowings at fair value. Source: Refinitiv/Baillie Gifford and relevant underlying index providers.

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

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*See disclaimer at the end of this announcement.*

## Managers' Report

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In our Interim Financial Report, we highlighted the significant disruption caused by the pandemic on businesses worldwide and its knock-on impact on global equity markets. Since then, equity markets have staged a strong recovery following the successful development of several vaccines. Most countries are currently in various stages of rolling out the vaccine to the general public. The Japanese government has recently approved a vaccine and is embarking on an ambitious plan to immunise its elderly citizens and the general public over the next few months. We are also seeing the resumption of industrial activity in some major markets, most notably China, and this has given a much-needed boost to investor sentiment.

It would be fair to say that the impact of the pandemic goes far beyond just affecting businesses in Japan. Over the past year, we have witnessed a significant acceleration in certain trends that we have been alluding to in our Managers' Reports over the years. Traditional business practices, consumption patterns and the provision of critical services like healthcare have all witnessed a fundamental shift due to the pandemic. Historically, Japanese businesses have been notoriously slow in adopting modern business practices, including the use of technology. The discerning nature of Japanese consumers who value personal contact and high standards of service has insulated brick and mortar retailers from online competition. This has resulted in slower e-commerce penetration in Japan compared to other developed markets. This state of affairs has been shaken up by the pandemic as restrictions to avoid the spread of the virus have forced consumers and companies to adapt. Smaller companies have benefitted significantly from these trends as they have generally been at the vanguard of change in Japan. Both businesses and consumers are realising the immense value that technology and online services bring to the table, and therefore we think many of these trends are likely to persist over the long-term. This should provide very attractive growth opportunities for smaller companies in Japan.

### **Performance**

Shin Nippon's investment philosophy is to seek out and invest in disruptive and fast-growing smaller businesses run by young and dynamic entrepreneurs in Japan. These young and rapidly growing businesses are often driving much needed change and the pandemic has only served to accelerate these changes. The chief beneficiaries have been online businesses and a number of these held in the portfolio put in an exceptionally strong performance over the past year, both in operational and share price terms.

For the full year ending 31 January 2021, Shin Nippon's NAV increased by 34.0%, significantly outpacing the 5.3% rise in the benchmark MSCI Japan Small Cap Index (all figures total return and in sterling terms, NAV per share with borrowings at fair value). However, we believe a fairer way of looking at performance is to focus on the long-term. Over both five and ten years, Shin Nippon's NAV has increased by 168.6% and 546.6% compared to a rise of 67.8% and 156.8% in the benchmark respectively. These figures illustrate the benefits of embracing volatility and adopting a patient and long-term approach to investing. It is also indicative of the fact that Japanese small caps provide a rich hunting ground for rapid growth companies that can generate significant returns over time for patient shareholders.

Online legal portal Bengo4.com was the top positive contributor to performance, with its shares more than doubling over the past year. While its online lawyer matching business recorded steady growth through the year, its digital contracts business CloudSign grew at a rapid pace with sales up nearly three-fold. Both public and private sector companies in Japan have gradually been shifting from paper-based contracts to digital contracts. The pandemic has accelerated this shift as employees forced to work from home have been unable to create and certify important documents that have traditionally needed an official seal called a *hanko*. This shift appears structural in nature and offers CloudSign an attractive long-term growth opportunity. Japan's leading online food delivery company Demae-Can was another strong performer. With most restaurants across Japan remaining shut due to the pandemic, the online food delivery market has seen an explosion in growth. Online food delivery companies like Demae-Can are proving to be a lifeline for restaurants desperate to stay afloat. This has resulted in extremely strong order and sales growth at Demae-Can and the company is continuing to invest aggressively in order to expand its delivery capabilities nationwide.

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Longstanding holding and Japan's leading online drug marketing platform M3 was also among the top performers. Drug companies have flocked to M3's online platform as medical representatives have been unable to carry out their traditional face-to-face marketing activities due to the pandemic. M3 also saw very strong growth in its overseas business, most notably China where its online drug marketing model continues to gain significant traction. Maintenance, repair and operations equipment provider MonotaRO was another strong performer over the year. Through its online model, it has traditionally served small and medium sized businesses across Japan. However, over the past year, it has seen a rising number of large corporates sign up for its service as their traditional supply chains remain severely disrupted due to the pandemic. Given the convenience, price transparency and quick delivery afforded by MonotaRO, we believe these new large customer accounts are likely to stick with it over the long-term, thereby giving the company access to a large and untapped growth opportunity.

While most online businesses benefitted immensely from the pandemic, sectors like physical retail, travel and manufacturing were unsurprisingly hard hit as they experienced severe disruption due to a series of national and regional lockdowns. Cosmetics retailer Istyle was among the largest negative contributors to performance. The company has had to weather a series of setbacks. A meaningful part of its revenues come from its small network of physical stores across Japan. These stores stock products rated as being the most popular by Istyle's online community of around 15 million users. Due to the pandemic, it has had to shut down all of its stores, thereby resulting in a significant hit to revenues. The company also generates a large proportion of its revenues through its Asian e-commerce platform, selling mainly to Chinese customers. A change in regulation imposed by the Chinese authorities meant that Istyle's online operations in the Chinese market were severely hampered. Japan's leading travel operator H.I.S. was another weak performer, following a collapse in both inbound and outbound travel.

Barcode maker Sato Holdings also performed poorly. A meaningful part of its client base consists of brick and mortar retailers. Intermittent shutdowns of these establishments owing to the pandemic had an adverse impact on Sato's business. Project cancellations due to the pandemic at some of its key retail clients also led to weak operational and share price performance from data analytics company Brainpad.

## **Portfolio**

We pay less attention to the benchmark 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 was 16.6% and we have retained just over 93% of last year's portfolio. This 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 GA Technologies, a young, disruptive and rapidly growing company that is making extensive use of technology to disrupt Japan's real estate market. It is run by its dynamic and young founder who retains a large stake in the business. The company's ambition is to position itself as a one-stop-shop for all real estate transactions. It operates an entirely online model through which it facilitates the buying and selling of properties for residential, leasing and rental purposes. In addition, through its online platform, it also allows users to apply for mortgages, draw up building plans, source renovation specialists, and keep track of the cash flows if clients have rental properties. It delivers all these services through the use of clever AI software that it has developed in-house. We also took a holding in Lifenet, Japan's only listed pure-play online life insurance company. The life insurance sector in Japan is huge and very traditional, with minimal online penetration. Through its transparent, low cost and easy to use web-based offering, Lifenet is seeking to take a slice of this significant pie. It offers a narrow range of easy to understand life insurance products that are becoming increasingly popular. The pandemic has boosted Lifenet's profile, especially among the internet savvy younger generation and new policies have been growing at a rapid pace as a result.

Tsubaki Nakashima was another new holding purchased during this period. It is the world's largest manufacturer of steel and ceramic balls used in ball bearings. It has an exceptionally strong competitive position thanks to its unmatched global scale in precision manufacturing. It has a large and diverse customer base and is a key supplier to all global ball bearing makers. It is also one of the very few companies globally that make ceramic balls. Due to their superior resilience and heat conductivity, ceramic balls are increasingly being used in electric vehicles and this represents a potentially exciting growth opportunity for the company. We also made our second investment in an unlisted company, Gojo & Co. This is a holding company that has majority stakes in a number of subsidiaries

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operating in emerging and frontier markets. These subsidiaries are engaged in microfinance, lending for affordable housing and SME lending. They are among the fastest growing entities in their respective categories and are serving large end-markets. Key geographies of operations include India, Cambodia and Sri Lanka. A significant proportion of the population in these markets remains without access to any formal channels of finance, leaving a huge gap in the process. Gojo's subsidiaries are attempting to plug this gap by offering affordable financing, targeting mostly the self-employed and micro-businesses.

We also sold a few holdings over the past year. Online payments provider Digital Garage had been a longstanding holding and a good performer over our holding period both in terms of operations and share price. More recently however, the growth trajectory of the business left us feeling underwhelmed and with intensifying competition in the area of digital payments in Japan, we fear Digital Garage will struggle to achieve the same high levels of growth that we have seen in the past. We also sold Hamakyorex, a leading logistics and warehousing company. It is struggling with labour shortages and is having to pay higher wages to secure experienced logistics staff, resulting in a margin squeeze. We feel this is likely to be a long-term structural issue for the company. Image processing software developer Morpho has struggled to make progress in winning new clients and we were left unimpressed by management's lack of ambition and drive in growing the business. We therefore decided to sell our entire holding in the company.

## **Outlook**

Whilst the pandemic has caused large-scale disruption across societies and businesses, more positively, it has also accelerated some much-needed structural change. We believe this is likely to be beneficial for consumers and businesses in the long run. Japan has had a history of not keeping up with the times, especially when it comes to using technology. The pandemic has laid bare the inadequacies of corporate Japan and in the process, provided a strong tailwind for smaller companies that are at the forefront of these structural changes. What we have witnessed over the past year is simply an accelerated expansion of the growth opportunities for numerous fast-growing smaller businesses in Japan. This is a hugely exciting development for Shin Nippon, and we look forward with optimism to seeking out and investing in these exciting smaller companies.

Baillie Gifford & Co

16 March 2021

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Source: Refinitiv/Baillie Gifford and relevant underlying index providers.

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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

#### **Bengo4.com**

##### **3.3% of total assets**

Bengo4.com operates a website for legal services in Japan where people in need of a lawyer can search for a specialist. With increasing instances of litigation in Japan and the government's desire to improve access to lawyers and raise the quality of advice available to individuals, there should be strong ongoing demand for Bengo4's services. Longer term, the company plans to offer these services to corporate clients, introduce online access to tax accountants and explore opportunities in legal technologies to reduce inefficiencies in the Japanese legal system. These initiatives should serve to expand the total addressable market for the company longer term. In addition, Bengo4 also operates one of Japan's leading digital contracts service called CloudSign. There has been an ongoing significant shift away from paper to digital contracts in Japan and the pandemic has accelerated this trend. As an early mover and a leading player, Bengo4 is extremely well positioned to benefit from this change.

#### **Demae-Can**

##### **3.1% of total assets**

Demae-Can is Japan's largest online food delivery operator. Food delivery is a large market in Japan and most of it currently remains offline. The online food delivery market has been expanding at a decent rate, but this shift has been accelerated by the pandemic. As a leading player with a significant share of the online food delivery market, Demae-Can should see rapid sales and profit growth for years to come. It is majority owned by LINE, Japan's largest online messaging platform, and there are significant synergies between the two businesses that can be realised. We think Demae-Can has all the makings of emerging as the potential long-term winner in this large and attractive market.

#### **Tsugami**

##### **3.0% 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 at the moment, 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 in the near future, following the same playbook as the Hong Kong subsidiary.

#### **GMO Payment Gateway**

##### **2.8% of total assets**

GMO Payment Gateway is a leading provider of digital payment processing services, facilitating transactions on over 40,000 small websites in Japan. The company has been growing rapidly as more websites have signed up to use the services, boosting the outlook for recurring annual fees. In addition, the company collects revenues related to the number of transactions that are processed and its customers' websites appear to have been performing very well. It has also been adding new value-added services to allow customers to analyse the performance of different parts of their websites.



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## **M3**

### **2.7% of total assets**

M3 is a Japanese company that provides online marketing support for pharmaceutical companies. It runs a medical website with an interactive portal that doctors can log into and pick up targeted email messages about relevant new drug developments. This online marketing is much cheaper for the pharmaceutical companies than face-to-face contact through sales representatives and allows for more efficient time-management by doctors. Growth has been rapid in Japan and M3 is now starting to show signs of replicating the business model successfully overseas. The company has obtained a worthwhile foothold in the US in several key areas such as cardiology and oncology, while acquisitions in Europe and China are helping the company develop its network of doctors there.

## **Raksul**

### **2.6% 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 almost three times 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.

## **Outsourcing**

### **2.5% of total assets**

Outsourcing provides outsourcing services for manufacturing, IT and civil engineering companies. Rising demand for employees and the tight labour market in Japan provides a supportive industry background for the company. The company has been the first to adopt a new business model in this industry which appears to have given them a good first mover advantage. Outsourcing has set up Professional Employer Organisations (PEOs), vehicles that employ seasonal workers on a permanent basis. The specialist workers are then leased back to companies that pay to be members of the PEO. The system is popular as it allows companies seeking workers to avoid taking on full-time staff, and Outsourcing does not have to bid up for seasonal workers when they are required. The blue-chip list of clients is impressive.

## **Kitanotatsujin**

### **2.4% of total assets**

Kitanotatsujin is an online retailer of own-branded functional cosmetics and skincare products. It is run by its young and dynamic founder who retains a large stake in the business. Kitanotatsujin has developed a unique business model where it charges customers a monthly or annual subscription fee. Its products are available only on its own website and the company develops these products to treat specific health and skin ailments. It takes a very scientific and data-centric approach to product development, marketing and monitoring of its products. This has resulted in a high level of efficiency in terms of its spending on these activities, thereby allowing the company to make very attractive margins due to high repeat subscriptions. The company seems to have carved a niche for itself with the broader cosmetics industry in Japan and we think the growth opportunity for it could be quite significant.

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## 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, is able to 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.

## Nihon M&A Center

### 2.3% of total assets

Nihon M&A provides merger advice to small and medium sized businesses in Japan. Many elderly business founders in Japan with no natural successor are looking for solutions to secure the long-term future of their company. There are also many companies in Japan with strong balance sheets looking to consolidate their industry to make operations more efficient. Nihon M&A earns a fee if it successfully introduces two companies that end up merging. The company has a strong pipeline of new deals due to strong links with local banks and tax accountants.

## New Buys

### GA Technologies

#### 2.2% of total assets

GA Technologies is an online provider of B2B ('business-to-business') services for the real estate industry in Japan. It currently generates revenues from the sale of investment properties through its website. The company, however, has developed a suite of AI based software applications that allows clients to manage numerous property related tasks such as remote viewing and management of properties, end-to-end processing of mortgages and automated generation of building floor plans, to name a few. The ultimate opportunity for the company is in replacing traditional industry practices with advanced, scalable cloud-based alternatives that save both time and money for its clients. In exchange, GA Technologies gets to target a sizeable end market and with its first mover advantage and differentiated business model when compared to other online peers. We believe the company is well positioned to generate rapid growth over the long-term. The company is run by its charismatic, ambitious and young founder who owns nearly 60% of the company, thereby ensuring strong alignment with minorities.

## Inter Action Corporation

### 0.7% of total assets

Inter Action manufactures equipment which is used to test image sensors. Its equipment precisely controls the flow of light allowing for defects to be spotted. It has a leading market share in testing equipment and an entrenched relationship with Sony, the standard-bearer in image sensors. Its main end market exposure is smartphones, but we are hopeful that its technology will, over time, become applicable to a broader range of end markets like autos. Profitability in its core testing business is such that cash flows can be recycled into new areas. We think its core expertise in optics along with its impressive book of customers are valuable long-term assets. It should be well placed to benefit from structural drivers like evermore capable smartphones and smarter cars. We think revenues and profits can grow meaningfully from here.

## Lifenet Insurance

### 0.5% of total assets

Lifenet Insurance is a fast-growing online life insurance business. It offers plain-vanilla life insurance products and sells predominantly through its own online platform. Its direct-to-consumer model allows it to price competitively, potentially an enduring competitive advantage. Incumbent peers tend to operate people-heavy distribution channels and are burdened with an ill-fitting cost base. Lifenet's customer centricity is backed by skills and expertise in systems development. It is a mix between an insurer and an internet-services business. We think this combination is attractive. Indeed, third-party businesses in Japan are increasingly keen to team up with Lifenet. The regulatory

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environment in Japan makes it difficult for new entrants to write business on their own books, this is further help for Lifenet. We think Lifenet is an ambitious and nimble business attacking a huge, rather stale, industry.

## **Modalis Therapeutics**

### **0.3% of total assets**

Modalis Therapeutics is an early-stage Japanese biotech specialising in gene editing using CRISPR/Cas9. Although listed in Tokyo, it is based in Cambridge, Massachusetts and was co-founded in 2016 by the current President Haru Morita, a molecular biologist and serial entrepreneur, and Osamu Nureki, a professor of Biological Sciences at the Graduate School of Science, Tokyo University. CRISPR/Cas9 is a relatively new gene editing technology that uses certain proteins to modify segments of the DNA that are either damaged or missing, giving rise to various genetic diseases. Unlike conventional CRISPR/Cas9 where fragments of the DNA are actually modified (and thus giving rise to potentially cancerous cells), Modalis uses a different approach. Their technology doesn't involve modifying the DNA but instead, they use a protein called a modulator, which controls the gene 'on/off' switch. So in case of a genetic abnormality due to a missing or an extra gene, Modalis is able to stimulate a natural response to this defect through its modulator, thus avoiding any changes to the genetic make-up. Genetic diseases are a massive area of unmet medical needs and through its novel approach, Modalis has a good chance of capitalising on this significant growth opportunity. There are very few listed, pure-play gene editing companies globally using CRISPR/Cas9 and Modalis has an opportunity of becoming one of the pioneers in this area. Both founders own nearly 40% of the company so there is pretty strong alignment.

## **Tsubaki Nakashima**

### **0.5% of total assets**

Tsubaki Nakashima is a leading global manufacturer of steel and ceramic balls that go into ball bearings which are in turn used across a wide range of industries. It operates in a consolidated market where it controls over 50% of global market share. Manufacture of steel and ceramic balls is a complicated process due to the extremely high levels of accuracy needed, as well as the scale (Tsubaki Nakashima makes 25-30 billion pieces each year) at which these need to be manufactured. The low value-to-weight ratio of steel and ceramic balls means that it is uneconomic to ship these products across large distances, so factories have to be set-up close to customer sites. All these factors mean that barriers to entry are quite high. Although the industry is cyclical, Tsubaki Nakashima's position as the leading player by a distance and its considerable global manufacturing scale means that it is well positioned to benefit as and when end demand recovers. In addition, it has a near monopoly in ceramic balls that are increasingly being used in Electric Vehicles as these are lighter, corrosion resistant and possess superior electrical conductivity. Ceramic balls also carry much higher margins than traditional steel balls and any meaningful change in Tsubaki Nakashima's product mix towards ceramic balls is likely to be positive for margins in the long run.

## **WealthNavi Inc.**

### **1.1% of total assets**

WealthNavi is Japan's leading digital robo wealth-management platform. It has some 225k users who have around \$3bn invested via its platform. We think there are attractive structural drivers here, as the burden of the future increasingly shifts to the individual. Furthermore, financial advice in Japan has historically been narrowly focused on the wealthy few. WealthNavi is attempting to redress this. We think this is a socially valuable endeavour and something its founder, who has a significant personal stake in the business, is committed to. Longer term, WealthNavi could potentially add further spokes like mortgage and insurance advice. We think there is room for revenue, profit, and cash flow to grow meaningfully from here. Its close relationship with other leading financial institutions in Japan should be helpful on this front as it builds a brand presence.

## **Gojo & Company**

### **0.6% of total assets**

Gojo is a Japanese holding company that has majority stakes in a number of subsidiaries operating in emerging or frontier markets. These subsidiaries are engaged in businesses related to financial inclusion, are among the fastest growing in their respective categories and are serving large end-markets. Their business activities are primarily

# Baillie Gifford Shin Nippon PLC

related to microfinance, lending for affordable housing and SME lending. Key geographies of operations include India, Cambodia, Sri Lanka and Myanmar. A significant proportion of the population in these markets remains without access to any formal channels of finance, leaving a huge gap in the process. Gojo's subsidiaries are attempting to plug this gap by offering affordable financing, targeting mostly the self-employed and micro-businesses. Gojo identifies and backs dynamic entrepreneurs in these emerging economies, providing them not only with finance but also technical assistance. Their Indian microfinance subsidiary, Satya Microcapital, is a case in point. It is among the fastest growing microfinance businesses in India currently, and drawing on Gojo's technical expertise, it is also the only player in its industry to accept repayments using biometrics and has gone completely cashless. Each of Gojo's end markets are quite large and immature, thereby offering significant long-term growth potential. Where microfinance is concerned, all of Gojo's subsidiaries use a group-lending system that allows them to maintain very low levels of defaults and cultivate sticky clients. Yields on these loans tend to be quite high and in combination with low funding costs (thanks to Gojo's ability to tap into its network of Japanese lenders), the overall returns can be quite attractive. These are some of the most heavily regulated industries (with caps on the rates charged) given their socioeconomic impact so barriers to entry can be quite high. Overall, we think Gojo has a set of potentially very attractive and fast-growing businesses, operating in markets with significant growth opportunities whilst fulfilling their broader mission of financial inclusion. Given these attractions, we have decided to participate in their ongoing Series D funding round for Shin Nippon.

## 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 don't.

#### 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.

# Baillie Gifford Shin Nippon PLC

## **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 two examples below demonstrate our stewardship approach through constructive, ongoing engagement.

### **Calbee**

Calbee manufactures a range of snack and cereal-based products. We met with CFO Koichi Kikuchi and members of the company's investor relations department to discuss its approach to sustainability and stakeholder relations. Kikuchi-san gave a compelling rationale for Calbee's disclosures of the environmental and social impacts of its operations. It has been proactive in developing healthy and protein-based products for its increasingly health-conscious consumers. In terms of stakeholder relations, the company has a deep and mutually beneficial relationship with the potato farmers of the Hokkaido region, and this manifests in a range of ways, including Calbee's consulting arm assisting in upgrading farmers' IT infrastructure.

### **CyberAgent**

A conversation with the founder and CEO Susumu Fujita reassured us that this Japanese digital platform business is improving its governance. We had previously written to the company with our concerns at the lack of board independence. The company advised that steps are being taken to address this, with the former CEO of Nestlé Japan appointed to the board and further independent hires in the pipeline. We are encouraged that CyberAgent has been receptive to our advice.

The growth in subscriptions for its ABEMA streaming service continues to impress, as does the platform's utility for online advertisers. In essence, ABEMA is likely to be the medium that moves brand advertising online in Japan. Stepping back, the culture that Fujita has nurtured is precisely what we look for in a disruptive innovator. There is an emphasis on meritocracy rather than seniority, a willingness to forgo short-term profitability in search of new business opportunities, and a refusal to accept the status quo, meaning operations are constantly improved and reinvented.

# Baillie Gifford Shin Nippon PLC

## Income statement

The following is the preliminary statement for the year to 31 January 2021 which was approved by the Board on 16 March 2021. No dividend is payable.

	For the year ended 31 January 2021			For the year ended 31 January 2020		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments	-	158,024	158,024	-	37,952	37,952
Currency gains/(losses) (note 2)	-	1,077	1,077	-	(320)	(320)
Income	5,587	-	5,587	6,006	-	6,006
Investment management fee (note 3)	(3,514)	-	(3,514)	(3,023)	-	(3,023)
Other administrative expenses	(557)	-	(557)	(560)	-	(560)
Net return before finance costs and taxation	1,156	159,101	160,617	2,423	37,632	40,055
Finance costs of borrowings (note 4)	(1,098)	-	(1,098)	(1,032)	-	(1,032)
Net return on ordinary activities before taxation	418	159,101	159,519	1,391	37,632	39,023
Tax on ordinary activities	(559)	-	(559)	(601)	-	(601)
Net return on ordinary activities after taxation	(141)	159,101	158,960	790	37,632	38,422
Net return per ordinary share (note 6)	(0.05p)	55.96p	55.91p	0.28p	13.57p	13.85p

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.

# Baillie Gifford Shin Nippon PLC

## Balance sheet

	At 31 January 2021		At 31 January 2020	
	£'000	£'000	£'000	£'000
<b>Fixed assets</b>				
Investments held at fair value through profit or loss (note 7)		750,943		530,633
<b>Current assets</b>				
Debtors	2,158		3,141	
Cash and cash equivalents	10,438		5,736	
	12,596		8,877	
<b>Creditors</b>				
Amounts falling due within one year (note 8)	(2,288)		(41,112)	
<b>Net current assets/(liabilities)</b>		10,308		(32,235)
<b>Total assets less current liabilities</b>		761,251		498,398
<b>Creditors</b>				
Amounts falling due after more than one year (note 8)		(63,199)		(14,682)
<b>Net assets</b>		698,052		483,716
<b>Capital and reserves</b>				
Share capital		6,026		5,591
Share premium account		229,149		174,208
Capital redemption reserve		21,521		21,521
Capital reserve		446,084		286,983
Revenue reserve		(4,728)		(4,587)
<b>Shareholders' funds</b>		698,052		483,716
<b>Net asset value per ordinary share</b>		231.7p		173.0p
Ordinary shares in issue (note 9)		301,292,485		279,577,485

# Baillie Gifford Shin Nippon PLC

## Statement of changes in equity

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)	<b>483,716</b>
Ordinary shares issued (note 9)	435	54,941	-	-	-	<b>55,376</b>
Net return on ordinary activities after taxation	-	-	-	159,101	(141)	<b>158,960</b>
<b>Shareholders' funds at 31 January 2021</b>	<b>6,026</b>	<b>229,149</b>	<b>21,521</b>	<b>446,084</b>	<b>(4,728)</b>	<b>698,052</b>

For the year ended 31 January 2020

	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 2019	5,469	163,191	21,521	249,351	(5,377)	<b>434,155</b>
Ordinary shares issued (note 9)	122	11,017	-	-	-	<b>11,139</b>
Net return on ordinary activities after taxation	-	-	-	37,632	790	<b>38,422</b>
<b>Shareholders' funds at 31 January 2020</b>	<b>5,591</b>	<b>174,208</b>	<b>21,521</b>	<b>286,983</b>	<b>(4,587)</b>	<b>483,716</b>

\* The capital reserve balance at 31 January 2021 includes investment holding gains of £259,841,000 (31 January 2020 – gains of £150,872,000).



# Baillie Gifford Shin Nippon PLC

## Cash flow statement

	For the year ended 31 January 2021		For the year ended 31 January 2020	
	£'000	£'000	£'000	£'000
<b>Cash flows from operating activities</b>				
Net return on ordinary activities before taxation	159,519		39,023	
Net gains on investments	(158,024)		(37,952)	
Currency (gains)/losses	(1,077)		320	
Finance costs of borrowings	1,098		1,032	
Overseas withholding tax	(572)		(601)	
Decrease in debtors, accrued income and prepaid expenses	22		17	
Increase in creditors	352		55	
<b>Cash inflow from operations</b>		<b>1,318</b>		<b>1,894</b>
Interest paid		(1,142)		(999)
<b>Net cash inflow from operating activities</b>		<b>176</b>		<b>895</b>
<b>Cash flows from investing activities</b>				
Acquisitions of investments	(170,441)		(100,686)	
Disposals of investments	107,971		88,851	
<b>Net cash outflow from investing activities</b>		<b>(62,470)</b>		<b>(11,835)</b>
<b>Cash flows from financing activities</b>				
Shares issued	54,762		11,139	
Bank loans repaid	(38,489)		-	
Bank loans drawn down	50,359		-	
<b>Net cash inflow from financing activities</b>		<b>66,632</b>		<b>11,139</b>
Increase in cash and cash equivalents		4,338		199
Exchange movements		364		(213)
Cash and cash equivalents at 1 February		5,736		5,750
<b>Cash and cash equivalents at 31 January*</b>		<b>10,438</b>		<b>5,736</b>

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

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## List of Investments at 31 January 2021

Name	Business	2021 Value £'000	2021 % of total assets	Absolute† Performance %	2020 Value £'000
Bengo4.com	Online legal consultation	24,830	3.3	151.5	14,835
Demae-Can	Online meal delivery service	23,661	3.1	164.0	9,712
Tsugami	Manufacturer of automated machine tools	22,608	3.0	70.8	6,947
GMO Payment Gateway	Online payment processing	21,644	2.8	110.0	12,128
M3	Online medical services	20,647	2.7	170.7	13,184
Raksul	Internet based services	19,832	2.6	20.1	12,941
Outsourcing	Employment placement services	19,359	2.5	30.6	14,502
Kitanotatsujin	Online retailer	18,429	2.4	(8.0)	9,873
Shoei	Manufactures motor cycle helmets	17,838	2.3	71.3	10,576
Nihon M&A Center	M&A advisory services	17,639	2.3	90.4	13,441
GA Technologies	Interactive media and services	16,983	2.2	195.2 #	-
JEOL	Manufacturer of scientific equipment	16,725	2.2	19.0	13,282
Katitas	Real estate services	16,605	2.2	41.6	13,592
MonotaRO	Online business supplies	16,360	2.2	95.7	14,477
Megachips	Electronic components	16,254	2.1	79.0	5,428
Infomart	Internet platform for restaurant supplies	16,169	2.1	2.2	14,171
Horiba	Manufacturer of measuring instruments	14,708	1.9	(0.7)	13,470
eGuarantee	Guarantees trade receivables	14,017	1.9	75.0	7,846
Uzabase	Financial data services	13,497	1.8	61.1	4,688
Cosmos Pharmaceuticals	Drugstore chain	12,260	1.6	32.6	10,709
<b>Top 20</b>		<b>360,065</b>	<b>47.2</b>		
Cocokara Fine	Drugstore chain	12,177	1.6	1.5	8,583
Litalico	Provides employment support and learning support services for people with disabilities	12,131	1.6	32.7	2,732
Technopro Holdings	IT staffing	11,716	1.6	9.1	10,222
Nifco	Value-added plastic car parts	11,554	1.5	27.8	9,079
Cybozu	Develops and markets internet and intranet application software for businesses	10,830	1.4	37.0	2,252
Sho-Bond	Infrastructure reconstruction	10,823	1.4	1.8	10,613
Noritsu Koki	Holding company with interests in biotech and agricultural products	10,284	1.4	33.4	7,592
Peptidream	Drug discovery and development platform	10,196	1.3	15.5	12,998
OSG	Manufactures machine tool equipment	10,001	1.3	1.2	9,375
Harmonic Drive	Robotic components	9,961	1.3	56.6	11,068
Snow Peak	Designs & manufactures outdoor lifestyle goods	9,343	1.2	76.6	1,898
Iriso Electronics	Specialist auto connectors	9,327	1.2	14.3	5,471
Akatsuki	Mobile games developer	9,108	1.2	(3.8)	4,801
Descente	Manufactures athletic clothing	8,854	1.2	(6.4)	3,276
Nakanishi	Dental equipment	8,737	1.1	3.7	5,502
Anest Iwata	Manufactures compressors and painting machines	8,729	1.1	12.4	6,543
Gumi	Mobile games developer	8,724	1.1	20.8	6,293
WealthNavi	Digital robo wealth-management	8,710	1.1	142.1 #	-
Oro	Develops and provides enterprise planning software	8,482	1.1	9.0	3,805
Healios K.K.	Regenerative medicine	8,078	1.1	(12.4)	8,878
Brainpad	Business data analysis	7,784	1.0	(35.6)	11,802
Broadleaf	Online platform for buying car parts	7,595	1.0	4.8	7,175
Asahi Intecc	Specialist medical equipment	7,573	1.0	12.1	12,238
Torex Semiconductor	Semiconductor company	7,543	1.0	(3.9)	6,107
Istyle	Beauty product review website	7,395	1.0	(13.4)	8,264
Seria	Discount retailer	7,240	1.0	22.0	5,904
Poletowin Pitcrew	Game testing and internet monitoring	7,187	1.0	27.2	5,520
KH Neochem	Chemical manufacturer	7,098	0.9	0.4	5,559
Kumiai Chemical	Specialised agrochemicals manufacturer	7,017	0.9	1.2	4,959
Nabtesco	Robotic components	6,752	0.9	46.6	5,396

# Baillie Gifford Shin Nippon PLC

## List of Investments at 31 January 2021 (Ctd)

Name	Business	2021 Value £'000	2021 % of total assets	Absolute† Performance %	2020 Value £'000
Locondo	E-commerce services provider	6,729	0.9	85.1	3,994
Optex	Infrared detection devices	6,612	0.9	33.3	4,853
WDB Holdings	Human resource services	6,200	0.9	(2.6)	6,067
Findex	Healthcare software developer	6,048	0.8	(2.5)	4,212
Crowdworks	Crowd sourcing services	5,780	0.8	55.1	3,050
Nippon Ceramic	Electronic component manufacturer	5,531	0.7	12.7	5,529
Inter Action Corporation	Semiconductor equipment	5,327	0.7	8.9 #	-
H.I.S.	Japan's largest travel operator	4,986	0.7	(29.5)	4,286
Daikyonishikawa	Automobile part manufacturer	4,976	0.7	6.6	3,224
SIIX	Out-sources overseas production	4,970	0.7	20.4	3,183
Moneytree K.K. Class B Preferred <u></u>	AI based fintech platform	4,889	0.6	50.0	3,260
Gojo & Company Inc Class D Preferred <u></u>	Diversified financial services	4,869	0.6	(5.9)#	-
Pigeon	Baby care products	4,659	0.6	18.3	6,924
Kitz	Industrial valve manufacturer	4,392	0.6	(20.0)	5,449
Nikkiso	Industrial pumps and medical equipment	4,358	0.6	(26.9)	5,173
JP Holdings	Operates child-care facilities	4,148	0.5	(10.6)	4,707
Lifenet Insurance	Online life insurance	3,940	0.5	(4.5)#	-
Sato Holdings	Barcode and RFID technology	3,924	0.5	(28.9)	6,346
Tsubaki Nakashima	Industrial machinery	3,714	0.5	20.9 #	-
CyberAgent	Japanese internet advertising and content	3,683	0.5	48.0	3,350
Yonex	Sporting goods	3,673	0.5	(15.1)	3,493
Calbee	Branded snack foods	3,649	0.5	(13.0)	4,259
Aeon Delight	Shopping mall maintenance	3,340	0.4	(26.7)	4,350
Weathernews	Weather information services	2,554	0.3	27.1	2,048
Modalis Therapeutics	Healthcare technology	2,311	0.3	98.2 #	-
Nanocarrier	Biotech company	1,607	0.2	21.0	1,543
Dream Incubator	Early stage business support	1,575	0.2	(20.2)	1,974
Freakout Holdings	Digital marketing technology	1,485	0.2	(29.2)	1,832
<b>Total investments</b>		<b>750,943</b>	<b>98.6</b>		
<b>Net liquid assets*</b>		<b>10,308</b>	<b>1.4</b>		
<b>Total assets</b>		<b>761,251</b>	<b>100.0</b>		
<b>Bank loans</b>		<b>(63,199)</b>	<b>(8.3)</b>		
<b>Shareholders' funds</b>		<b>698,052</b>	<b>91.7</b>		

† Absolute performance (in sterling terms) has been calculated on a total return basis\* over the period 1 February 2020 to 31 January 2021.

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

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

Unlisted holding (private company).

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

# Baillie Gifford Shin Nippon PLC

## Notes to the financial statements

1. The Financial Statements for the year to 31 January 2021 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 2021.

	31 January 2021 £'000	31 January 2020 £'000
2. Currency (losses)/gains		
Exchange differences on bank loans	713	(107)
Other exchange differences	364	(213)
	<b>1,077</b>	<b>(320)</b>

	31 January 2021 £'000	31 January 2020 £'000
3. Investment management fee – all charged to revenue		
Investment management fee	<b>3,514</b>	3,023

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 2020 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 on bank loans of £57,000 (2020 - £18,000) in respect of yen deposits held by the custodian bank.
5. No dividend will be declared.

	31 January 2021 £'000	31 January 2020 £'000
6. Net return per ordinary share		
Revenue return	(141)	790
Capital return	159,101	37,632
Total return	<b>158,960</b>	<b>38,422</b>

The returns per ordinary share set out below are based on the above returns and on 284,337,704 ordinary shares (2020 – 277,319,745), being the weighted average number of ordinary shares in issue during the year. There are no dilutive or potentially dilutive shares in issue.

Revenue return	<b>(0.05p)</b>	0.28p
Capital return	<b>55.96p</b>	13.57p
Total return	<b>55.91p</b>	<b>13.85p</b>

## Notes to the financial statements (ctd)

### 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).

During the year investments with a book cost of nil were transferred from Level 2 to Level 1 (2020 - £3,143,000). Unlisted securities are categorised as Level 3. None of the financial liabilities are designated at fair value through profit or loss in the Financial Statements.

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

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>As at 31 January 2020</b>				
Listed equities	527,373	-	-	527,373
Unlisted securities	-	-	3,260	3,260
<b>Total financial asset investments</b>	<b>527,373</b>	<b>-</b>	<b>3,260</b>	<b>530,633</b>

## Notes to the financial statements (ctd)

8. The bank loans are stated after deducting the arrangement fees of £125,000 which are amortised over the terms of the loans. Amortisation of the arrangement fees during the year was £33,000 (2020 – £32,000).

### Borrowing facilities

#### 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.

#### At 31 January 2020

ING Bank N.V. – 7 year ¥3,350 million loan at 2.217% maturing 27 November 2020.

ING Bank N.V. – 3 year 8 month ¥2,000 million loan at 1.301% maturing 27 November 2020.

ING Bank N.V. – 7 year ¥2,100 million loan at 1.693% maturing 18 December 2024.

During the year the Company repaid in full the ¥3,350 million 7 year loan and the ¥2,000 million 3 year 8 month loan on maturity. The Company refinanced these with a 3 year ¥7,000 million loan with ING Bank N.V.

The fair value of the bank loans at 31 January 2021 was £63,740,000 (31 January 2020 – £52,626,000). See Glossary of Terms and Alternative Performance Measures at the end of this announcement.

9. At 31 January 2021 the Company had authority to buy back 41,908,665 shares. No shares were bought back during the year (2020 – nil). Share buy-backs are funded from the capital reserve.

During the year the Company issued 21,715,000 shares on a non pre-emptive basis at a premium to net asset value for net proceeds of £55,376,000 (2020 – 6,125,000 shares for net proceeds of £11,139,000). Between 1 February and 11 March 2021 the Company issued 5,450,000 further shares for net proceeds of £13,300,000.

	31 January 2020 £'000	Cash Flows £'000	Exchange Movement £'000	Other Non-cash changes £'000	31 January 2021 £'000
Cash and cash equivalents	5,736	4,338	364	-	10,438
Loans due within one year	(37,403)	38,489	(1,065)	(21)	-
Loans due in more than one year	(14,682)	(50,283)	1,778	(12)	(63,199)
<b>Total</b>	<b>(46,349)</b>	<b>(7,456)</b>	<b>1,077</b>	<b>(33)</b>	<b>(52,761)</b>

- 10.
11. The Annual Report and Financial Statements will be available on the Company's website [www.shinnippon.co.uk](http://www.shinnippon.co.uk)<sup>†</sup> on or around 7 April 2021.
12. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 January 2021 or 2020 but is derived from those accounts. Statutory accounts for 2020 have been delivered to the Registrar of Companies, and those for 2021 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.
13. **Post Balance Sheet Event**  
Subsequent to 31 January 2021, the Company issued a further 5,450,000 shares (as at 11 March 2021) on a non pre-emptive basis at a premium to net asset value raising net proceeds of £13.3 million.

<sup>†</sup> 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.

# Baillie Gifford Shin Nippon PLC

## 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 with reference to Japanese government bonds of comparable yield and maturity. 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 2021	31 January 2020
Net Asset Value per ordinary share (borrowings at book value)	231.7p	173.0p
Shareholders' funds (borrowings at book value)	£698,052,000	£483,716,000
Add: book value of borrowings	£63,199,000	£52,085,000
Less: fair value of borrowings	(£63,740,000)	(£52,626,000)
Shareholders' funds (borrowings at fair value)	£697,511,000	£483,175,000
Shares in issue at year end	301,292,485	279,577,485
Net Asset Value per ordinary share (borrowings at fair value)	231.5p	172.8p

### 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.

	2021 NAV (book)	2021 NAV (fair)	2020 NAV (book)	2020 NAV (fair)
Closing NAV per share	231.7p	231.5p	173.0p	172.8p
Closing share price	244.0p	244.0p	170.4p	170.4p
<b>Premium/(discount)</b>	<b>5.3%</b>	<b>5.4%</b>	<b>(1.5%)</b>	<b>(1.4%)</b>

# Baillie Gifford Shin Nippon PLC

## Glossary of Terms and Alternative Performance Measures (APM) (Ctd)

### 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 reconciliation from the expenses detailed in the Income Statement above is provided below:

	31 January 2021	31 January 2020
Investment management fee	£3,514,000	£3,023,000
Other administrative expenses	£557,000	£560,000
<b>Total expenses (a)</b>	<b>£4,071,000</b>	<b>£3,583,000</b>
Average daily cum-income net asset value (with debt at fair value) (b)	£573,387,000	£490,280,000
<b>Ongoing charges (a) ÷ (b) (expressed as a percentage)</b>	<b>0.71%</b>	<b>0.73%</b>

### 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.

	2021 Gearing <sup>†</sup> £'000	2021 Potential Gearing <sup>#</sup> £'000	2020 Gearing <sup>†</sup> £'000	2020 Potential Gearing <sup>#</sup> £'000
Borrowings (a)	63,199	63,199	52,085	52,085
Cash and cash equivalents (b)	10,088	-	4,588	-
Shareholders' funds (c)	698,052	698,052	483,716	483,716
	<b>7.6</b>	<b>9.1</b>	<b>9.8</b>	<b>10.8</b>

<sup>†</sup> Gearing ((a) – (b)) ÷ (c), expressed as a percentage.

<sup>#</sup> Potential gearing: (a) ÷ (c), expressed as a percentage.



# Baillie Gifford Shin Nippon PLC

## Glossary of Terms and Alternative Performance Measures (APM) (Ctd)

### **Leverage**

For the purposes of the Alternative Investment Fund Managers (AIFM) Directive, 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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