

Fund Review

Baillie Gifford

Japanese Income Growth Fund

January 2023



For professional advisers only

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Defaqto Fund Reviews

This document is designed to provide the reader with a quantitative overview of the fund reviewed. The review then goes on to examine information of a more qualitative nature, which has been obtained through an interview process with the fund manager/s.

The qualitative information covers specific areas including the fund manager’s philosophy, their people, and the processes they employ. Additional information is also provided on their research capability, the resources they have at their disposal and how they manage risk. All of this information goes towards creating this comprehensive Fund Review.

Defaqto Ratings

Ratings to help advisers and their clients make better informed decisions

The Defaqto experts have created a range of ratings to help advisers find the best product or proposition for their clients.



Show at a glance how a fund or fund family performs in comparison to the rest of the market.



Demonstrate the comprehensiveness of products across a range of areas, from pensions to DFMs.



An overall assessment of service – by advisers for advisers.

Suitability ratings to support compliant advice

Defaqto have created a set of ten Risk Profiles, and four Income Risk Profiles with corresponding ratings to which funds are mapped using a robust process. This helps advisers to evidence suitability for their clients in both the accumulation and decumulation phase:



Fund Review



Baillie Gifford
Japanese Income Growth Fund
Patrick Norwood, CFA

Executive summary



The Baillie Gifford Japanese Income Growth Fund is run by the Japanese equities team who have substantial experience in running Japanese equity mandates. The fund follows the same tried and tested growth investing philosophy that is used across all of Baillie Gifford's Japanese investments.

The team focus on bottom-up security selection. The investment managers look for stocks that have strong potential for capital growth whilst also generating an attractive yield.

The growth-yield orientated style that underpins the investment philosophy of the fund takes a long term approach, with latest numbers showing a turnover of 9%.

Since launch in July 2016 the fund has fared well, outperforming the category average over the five years to end-June 2022, albeit with slightly higher volatility.

Charges for the fund are competitive compared to those of peers.

Investment objective

The Japanese Income Growth Fund aims to provide income without sacrificing the potential for capital growth by investing in companies that can grow their earnings over the long-term, taking advantage of dividend growth over time. By focusing on yield orientated growth companies, the fund targets capital growth and an above average market yield, over rolling five-year periods.

The fund is positioned to capitalise on recent reforms to Japanese corporate governance and the increased focus on dividend payments to shareholders.

About Baillie Gifford

Baillie Gifford was established in 1908 and is structured as a partnership, with 51 partners currently. Baillie Gifford believe that this partnership structure promotes a long-term approach, as there are no outside shareholders with potentially different priorities, as well as enabling a strong client focus. Baillie Gifford also feel their structure is a significant factor in attracting and retaining investment talent. The latter is borne out with low employee turnover figures of 3.1% over 2021.

Overall the firm has 1,630 staff, of which 140 are fund managers and analysts and about £223bn in AUM (as at 31 December 2023). Their main office is in Edinburgh and this is where all investment decision-making takes place.

Baillie Gifford generally take a long-term and active approach across asset classes.



Quantitative summary

The quantitative data that appears over the following pages has been generated by Defaqto using a combination of third-party and proprietary data sources and data provided by the asset manager. The information reflects the availability of data as at the dates highlighted.

All information reflects the investment solution specified in the information and classification table below.

Fund information and classification

Launch date	04 July 2016
Fund Manager	Matthew Brett & Karen See
Domicile	GBR
Assets	Active
Approach	Return Focused
Type	OEIC

ISIN ¹	GB00BYZJQH88
IA sector	Japan
Morningstar category ²	Japan Large-Cap Equity
Defaqto Diamond Rating Type	Japan Large Cap Equity
Diamond Rating	-

¹This is the shareclass used for the quantitative data and analysis over the following pages

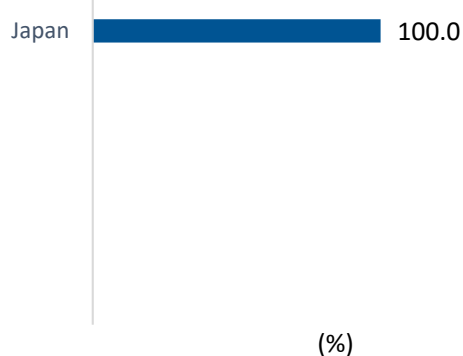
²The Morningstar Category is used in all comparative analysis, over the following pages.

Fund size and fees

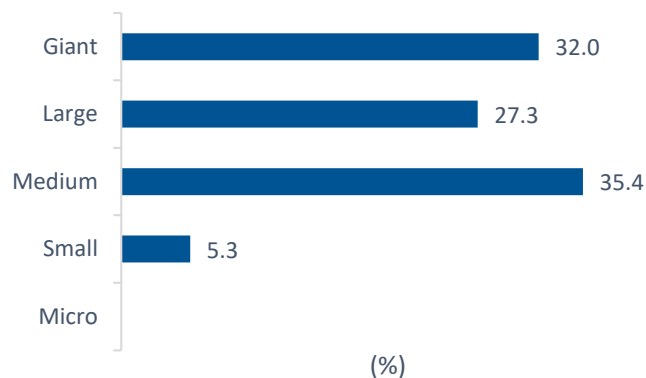
AUM	£786.2m
Date	30 December 2022
OCF Estimated	0.62%
OCF Actual	0.62%
Transaction Fee Actual	0.00%
Performance Fee (Yes/No)	No
Performance Fee Actual	n/a

Geographical exposure and market capitalisation/credit maturity

Regional Equity Allocation



Market Capitalisation Equity Allocation



Source: Morningstar, 30/12/2022

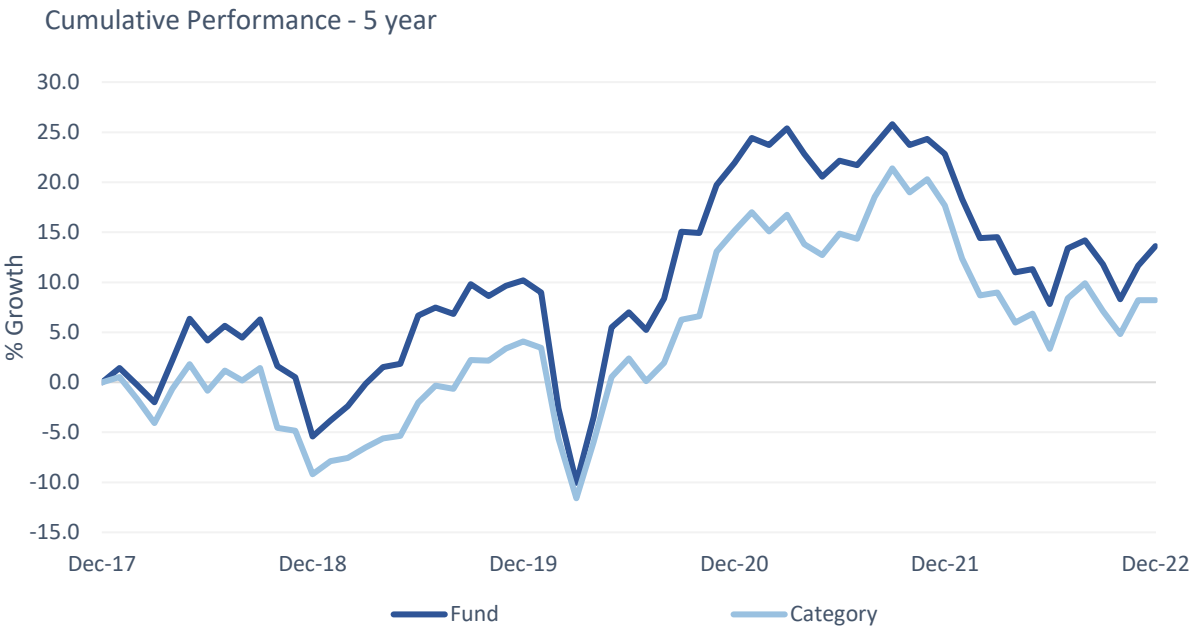
Top 10 holdings

Total Number of Equity Holdings	54
Total Number of Bond Holdings	-
Assets in Top 10 Holdings (%)	33%

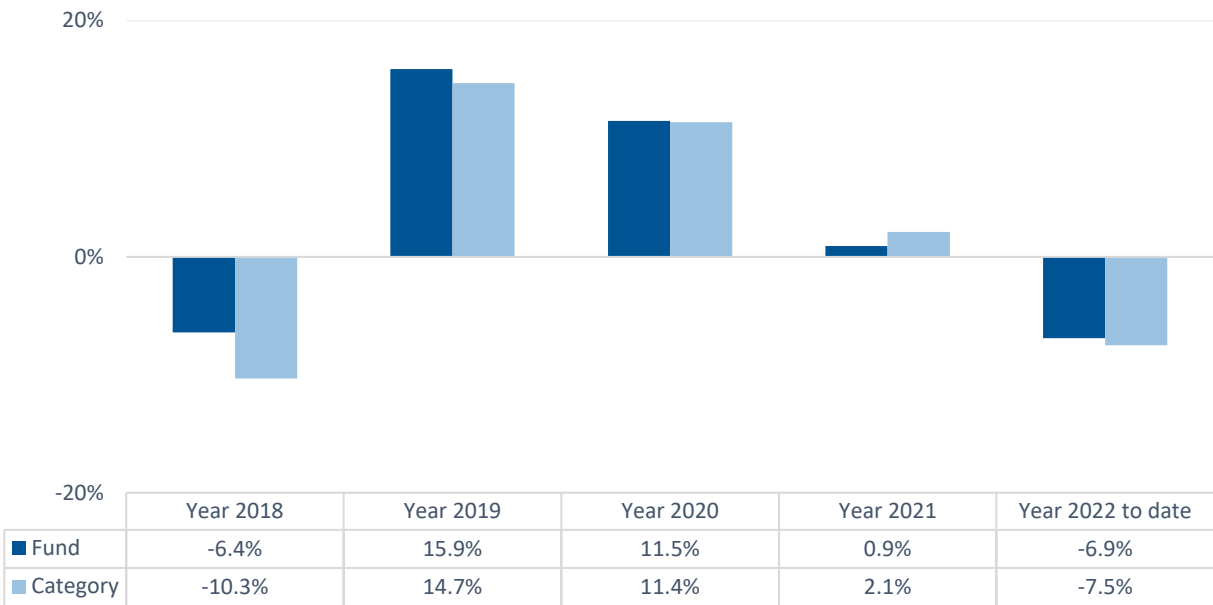
Name	Country	% of assets
Fanuc Corp	Japan	3.8
SBI Holdings Inc	Japan	3.4
Tokio Marine Holdings Inc	Japan	3.4
Sumitomo Mitsui Trust Holdings Inc	Japan	3.4
Bridgestone Corp	Japan	3.3
MS&AD Insurance Group Holdings Inc	Japan	3.3
GMO Internet group Inc	Japan	3.1
Denso Corp	Japan	3.1
ITOCHU Corp	Japan	3.1
SoftBank Group Corp	Japan	3.1

Source: Morningstar, 25/01/2023

Performance



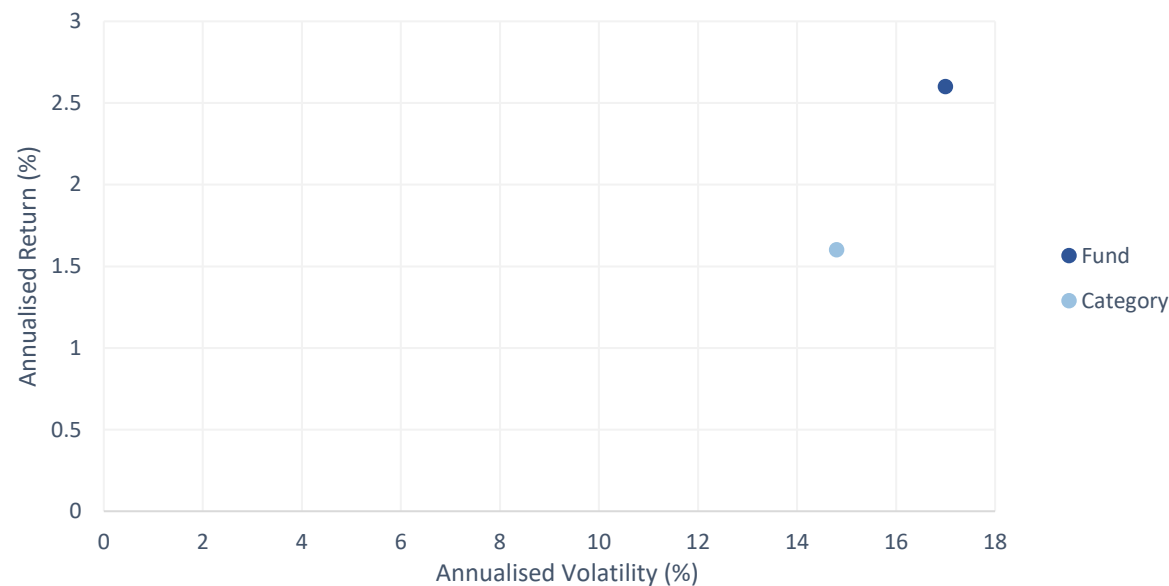
Annual Performance



Source: Morningstar, 30/12/2022

Risk

Risk vs Return- 5 year



Source: Morningstar, 30/12/2022

Drawdown

Last 60 Months	
Max Drawdown	-27.6%
Positive Months	32
Negative Months	28
Worst Month	-9.8%

Source: Morningstar, 30/12/2022

Liquidity

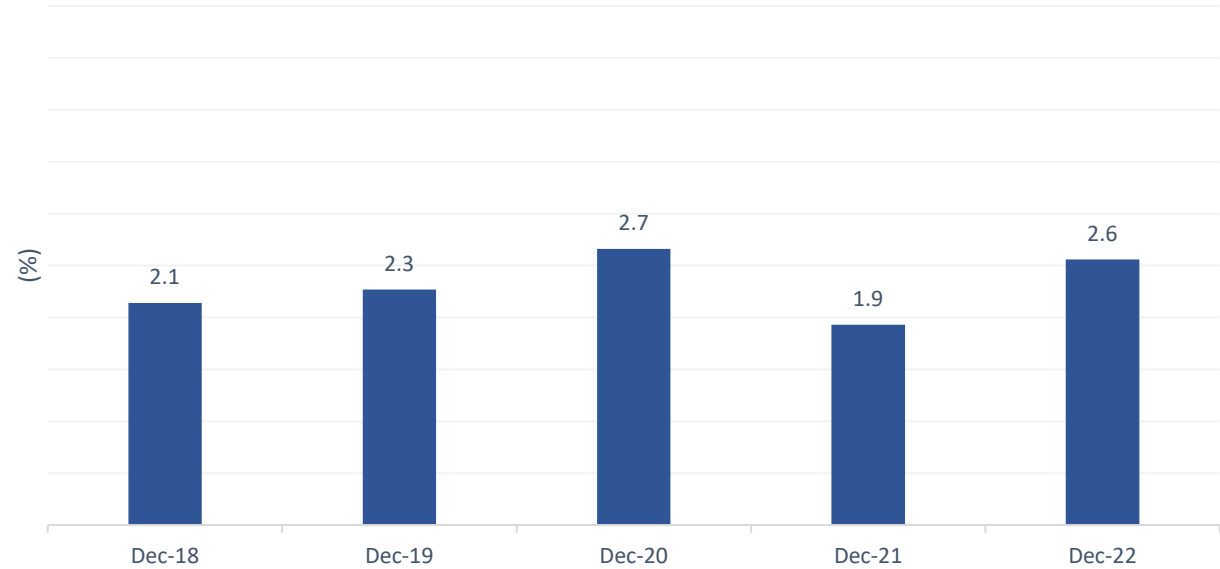
Days to liquidate holdings	% of portfolio
1 - 7 days	85.7
8 - 30 days	13.6
31 - 180 days	0.7
181 - 365 days	-
365+ days	-

Source: Baillie Gifford, July 2022. The data provided is for illustrative purposes only and assumes normal market conditions using 20% average daily volumes. It reflects a scenario where the funds are liquidated in full, and will change depending on market conditions and the makeup of the portfolio at any point in time.

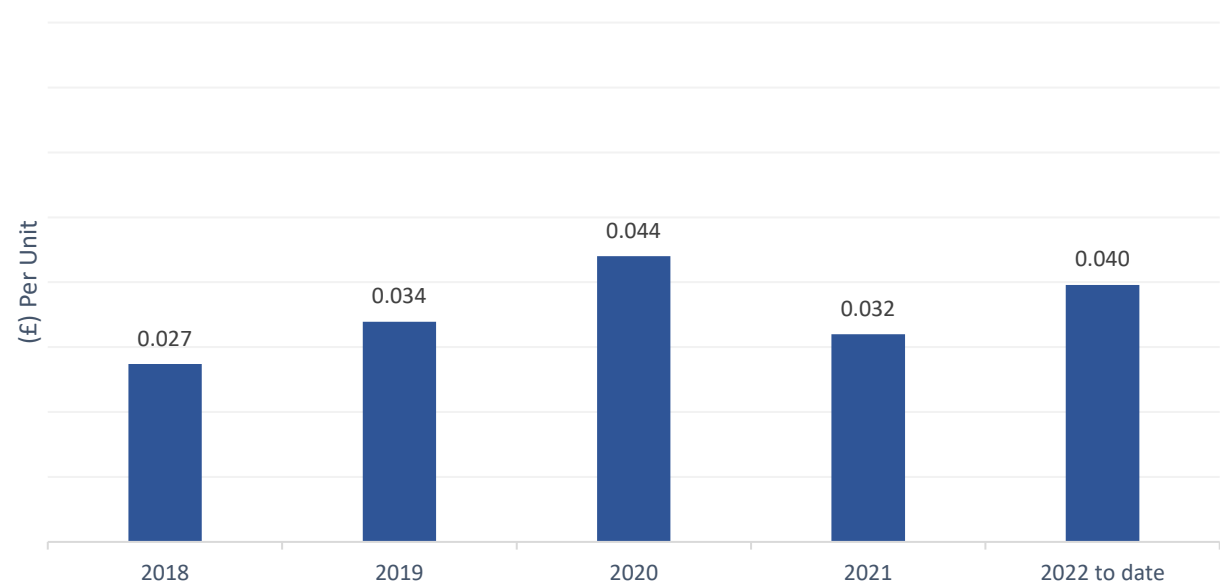
Income and yield

Yield	2.6%
Distribution Frequency	Semi-Annually

Distribution Yield



Pre Tax Income



Source: Morningstar, 30/12/2022

Philosophy

The fund benefits from the same long-term growth orientated investment approach that Baillie Gifford employ across all of their Japanese investments, taking a five year view towards stock selection.

For the Japanese Income Growth strategy, there is a particular emphasis on companies that are improving their attitude to corporate governance and returns on capital which, combined with the fundamental approach, results in a growth with yield orientated style.

The Japanese team aim to create value for clients by finding and investing in Japan's most promising growth companies. They do so by adopting a flexible approach to growth investing and using time to their advantage.

Adopting a long-term approach allows them to frame investment opportunities differently to the rest of the market. They consider the unique attractions of individual companies and do so over five-year time periods and beyond. This long-term focus allows them to eschew the ephemeral vagaries of markets, cycles and share prices to unearth exploitable and under-appreciated opportunities that will ultimately deliver long-term outperformance.

People

Baillie Gifford has been running specialist Japanese equity mandates since 1981.

The Japanese equities team is headed up Donald Farquharson. The lead managers for the Japan Income Growth strategy are Matthew Brett and Karen See.

The Investment Managers and Analysts (see more detail below) are supported by a dedicated ESG analyst (who reports into the head of the investment team) and two Japan investment specialists - Andrew Brown and Thomas Patchett - who, as well as being the primary liaison contacts for institutional clients, are also involved in stock specific research and investment discussions with the wider team.

Donald Farquharson joined Baillie Gifford in 2008 as an Investment Manager on the Japanese Equities Team. He has over 25 years' investment experience dedicated almost entirely to Japanese Equities. He graduated with MA (Hons) in Arabic Studies from the University of St Andrews in 1987 and is a CFA charterholder. Donald became a Partner in 2017 and is Head of the Japanese Equities Team.

Matthew Brett joined Baillie Gifford in 2003 and is an Investment Manager in the Japanese Equity Team. Matthew is manager of the Japanese All Cap strategy and lead manager of the Japanese Income Growth Strategy. Matthew became a Partner in 2018 and is a CFA charterholder.

Iain Campbell joined Baillie Gifford in 2004 after a short period at an investment bank. Most of Iain's investment career has been focused on Emerging and Developed Asian markets and Iain is member of the Japanese specialist team. Iain is responsible for managing various specialist Developed Asia including Japan portfolios. Iain became a partner in 2020.

Praveen Kumar graduated BEng in Computer Science from Bangalore University in 2001, and an MBA in Finance from the University of Cambridge in 2008. He joined Baillie Gifford in 2008 after completing the investment graduate trainee programme and subsequently joined the Japanese Equities Team as an Investment Manager in 2011.

Tolibjon Tursunov graduated LLB in Law from Queen Mary University of London in 2008. Tolibjon joined Baillie Gifford in 2011 and is an Investment Manager in the Japanese Equity Team.

Karen See graduated BSc (Hons) in Economics with Japanese from University of Birmingham in 2011. Karen joined Baillie Gifford in 2012 and is an Investment Manager and is a CFA charterholder in the Japanese Equities Team.

Minahil Naveed joined Baillie Gifford in 2019 and is an Investment Analyst in the Japanese Team.

Paul Schwerda is an Investment Analyst in the Japanese Equities Team, having joined Baillie Gifford in 2018.

Mirbahram Azimbayi joined Baillie Gifford in 2018 and is an Investment Analyst in the Japanese Team.

Jennifer Ireland is an Investment Analyst in the Japanese Team, having joined Baillie Gifford in 2021.

The team are also supported by Satoko Ishino and Akiko Hirai, Baillie Gifford's two Tokyo-based independent researchers. Satoko and Akiko-San provide supplementary 'on the ground' research commissioned by members of the team.

The Investment Team



Donald Farquherson*

Investment Manager

Years of experience: 33 (13)



Tolibjon Tursunov

Investment Manager

Years of experience: 10 (10)



Matthew Brett*

Investment Manager

Years of experience: 18 (18)



Karen See

Investment Manager

Years of experience: 9 (9)



Parveen Kumar

Investment Manager

Years of experience: 13 (13)



Iain Campbell*

Investment Manager

Years of experience: 17 (17)



Paul Schwerda

Investment Analyst

Years of experience: 3 (3)



Mirbahram Azimbayl

Investment Analyst

Years of experience: 3 (3)



Minshil Naveed

Investment Analyst

Years of experience: 2 (2)



Jennifer Ireland

Investment Analyst

Joined September 2021



Cian Whelan

ESG Rep

Years of experience: 7 (2)



Andrew Brown

Investment Specialist

Years of experience: 21 (14)



Thomas Patchett

Investment Specialist

Years of experience: 11 (6)

* Partner
(Years with Baillie Gifford).

Embracing cognitive
diversity

Exploring Japanese
opportunities with
a global mindset

Supported by two Tokyo
based researchers
Satoko Ishino and
Akiki Hirai

Process

Idea generation

The team look for Japan's most attractive growth companies and aim to generate original investment ideas by utilising a variety of sources. In addition to the more conventional inputs such as meetings with senior management and scrutinising company reports and accounts, they utilise private company analysis, bespoke and thematic reports from their independent researchers in Tokyo, investment trips (not limited to Japan), links with academia and industry experts.

Research and debate

Companies that pique their interest are subject to Baillie Gifford's four-factor investment framework analysis. This process is intended to focus attention on key fundamentals that they believe are most pertinent to delivering long-term growth.

Opportunity

Here Baillie Gifford quantify the scale of the opportunity and addressable market. Normally they are looking for large and ideally expanding opportunities, where future assessment may regard these as more attractive than currently.

The question they are looking to answer is 'How big is the opportunity looking forward 5 years?'.

Resilience +

Here Baillie Gifford look at operational resilience, financial strength and management quality. They aim to look beyond static resilience to dynamic advantages, such as data technology or an entrepreneurial culture, which will enable the company to be stronger and more valuable in the future than today.

The question they are looking to answer is 'How durable/adaptable will the competitive advantage be in 5 years' time?'.

ESG

Rather than examining all aspects of ESG within the report the aim here is to focus on key issues. Where there is an insufficient body of work to be confident of homing in on these, this should be separately addressed outside the main report.

The question Baillie Gifford are looking to answer is 'Taking in turn environmental, social and governance factors, which do they believe are important and relevant to the investment case?'.

Upside

Using all dimensions of prospective return, Baillie Gifford estimate the market value in 5 years. Upside should consider both negative and very positive scenarios and they are looking for a minimum weighted-average expected return of 2x.

The question they are looking to answer is 'How much money will their clients make on a 5-year view?'.

Decision

The final decision will lie with the named managers of the fund, depending on individual conviction and broader portfolio context, whilst taking any investment guidelines into account. To assist in this process, the investment managers meet formally fortnightly to review the portfolio and prospective investments.

At the conclusion of a stock discussion meeting, all attendees will be asked to apply an alpha numeric rating, based on four aspects of the investment case: Opportunity (best A to worst E); Resilience + (best A to worst E); ESG (best α to worst ϵ); and Upside (greatest 1 to least 5).



Risk management

Baillie Gifford believe that permanent loss of capital is the most important risk to any portfolio, over and above model-based risk measures and historic share-price behaviour. They attempt to mitigate this risk in various ways:

Fundamental analysis

The first line of defence is extensive due diligence. New buy ideas – and current holdings – are subject to thorough reviews by the Japanese Equity Team, with input from a plurality of Baillie Gifford research teams.

Portfolio risk

The team seek to maintain an appropriate level of diversification at the overall portfolio level by embracing pragmatic risk guidelines which are formally reviewed on a regular basis.

Liquidity risk

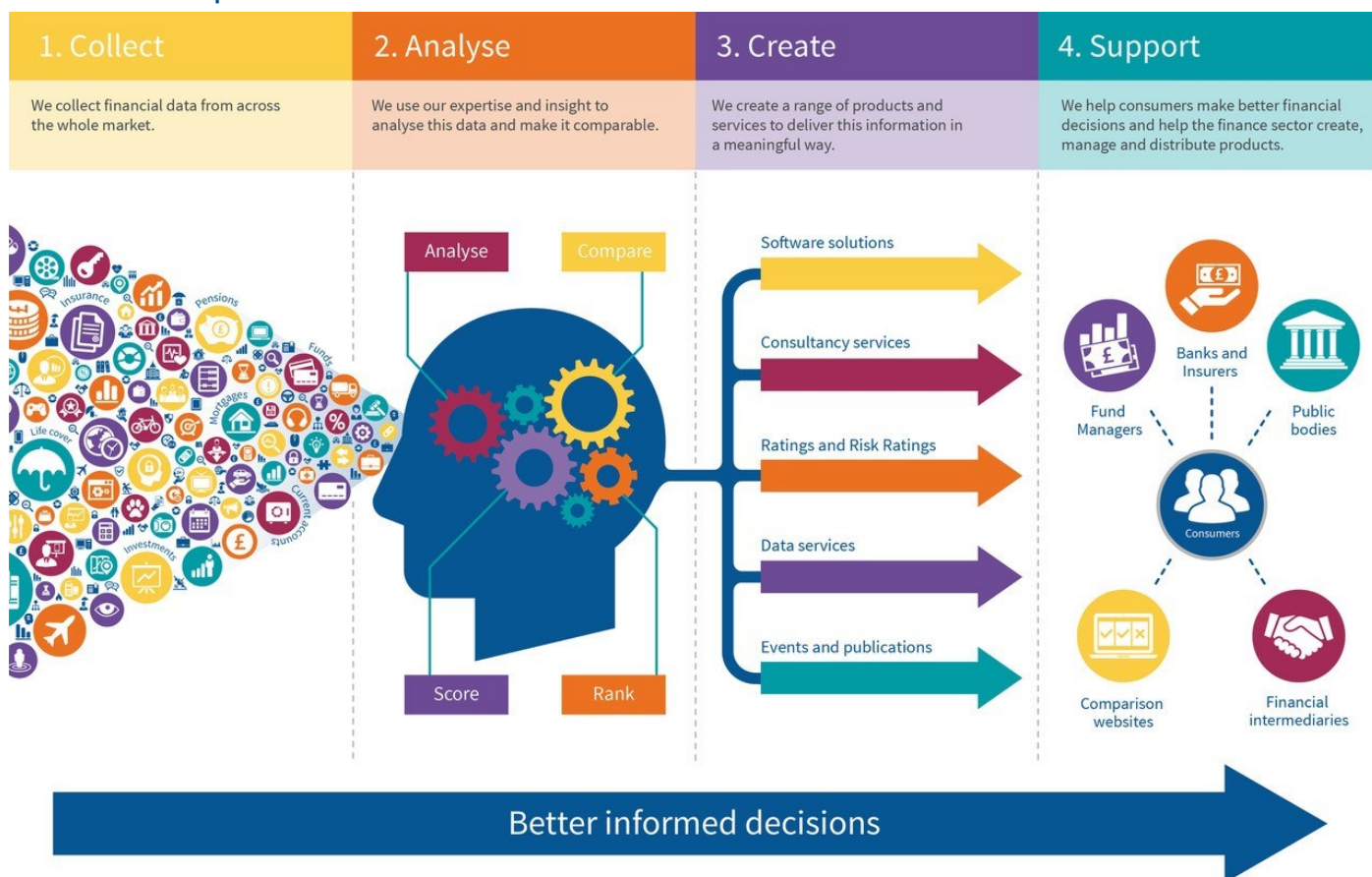
In common with other equity strategies at Baillie Gifford, no more than 10% of the portfolio may be held in illiquid positions defined as the percentage of ownership owned beyond eight days' average trading volume. This ensures that

the portfolio remains sufficiently liquid to enable positions to be exited or client cash flows to be managed with minimal impact.

Independent oversight, beyond box ticking

There is an independent Investment Risk Team at Baillie Gifford which provides additional analysis on portfolios that goes far beyond the concept of an investment risk function being only adversarial 'risk police'. While part of their toolkit includes an ability to disagree and constructively oppose based on various oversight mechanisms and risk guidelines, they also play a role as engagers of portfolio managers: providing perspectives on the portfolios (on capital allocation, behavioural biases and decision-making analysis for example) with the aim of improving the investment process, to achieve better outcomes and minimise opportunity costs.

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