

# Baillie Gifford Japanese Income Growth

Japan

## Introduction

This is a long-only Japanese equity fund which launched in July 2016. The managers, Matthew Brett and Karen See, apply a disciplined investment process focused on bottom-up growth investing with a yield orientation at the portfolio level. It typically invests in between 45 – 65 companies across the market-cap spectrum.

[Click here to read the Baillie Gifford approach to ESG investing.](#)



## Why RSMR Rate this Fund

This fund has been placed under review due to performance concerns.

## Fund Process

The investment process primarily focuses on fundamental company research which is the main activity for each member in the team. The benchmark index comprises over 2,000 companies and the managers are seeking to build a portfolio of between 45 and 65 companies.

The team do not seek to cover every possible opportunity in the Japanese market: they seek to generate original investment ideas from a variety of sources including company meetings, investment trips, external research and industry trade fairs. Each member of the Japanese equities team is responsible for covering certain sectors with coverage frequently rotating within the team. Over time, they have narrowed the investment universe to a 'Followed List' of around 350 companies, which constitutes the main focus of their research. These are companies which, on initial assessment, are deemed to potentially satisfy more than one of four factors considered important: positive industry background, evidence of a durable competitive advantage, strong financial characteristics and a management attitude that is aligned with the interests of shareholders.

The team conduct around 500 Japanese company meetings each year (including multiple meetings with some companies) both in Japan and in the office in Edinburgh. These meetings are primarily focused towards companies held in the portfolios or those on the 'Followed List'. On a weekly basis, the team formally discuss research reports written by team members. Each attendee is asked to provide a rating of the business, based on its quality and valuation. The quality of a company is rated between A (excellent) and C (poor), and the valuation opportunity is rated from 1 (cheap) to 5 (expensive). These ratings are recorded after a stock has been debated, but before a consensus view is formed. In order to make peer-to-peer comparisons, the team use a standard analytical framework. The first two variables in the analytical framework are industry background and competitive advantage. The second two variables in the analytical framework are financial characteristics and management attitude. When constructing the portfolio, the team classify their holdings between four different growth areas to build a robust fund that can withstand market cycles – these are secular growth, growth stalwarts, special situations and cyclical growth. At a bi-monthly portfolio meeting, the investment managers promote changes to portfolios, taking into account recent research and ratings given at the weekly stock discussion or other strong views they may support. The size of holding generally reflects the level of conviction expressed in this discussion, although final decisions for this fund rest with the two co-managers.

## Evaluation

The growth orientated nature of the fund means that it is well positioned to capture the benefits of an upswing in Japanese equity markets. This may come at a cost of higher volatility than the sector average.

## Application

The fund is suitable for use as a core holding in a portfolio of Japanese collectives as it offers a more balanced approach between growth and income. The dividend element should provide some protection at times of market downturn.

## Our Opinion

This fund has been placed under review due to performance concerns.

### Important Notice

This document is aimed at Investment Professionals only and should not be relied upon by Private Investors. Our comments and opinion are intended as general information only and do not constitute advice or recommendation. Information is sourced directly from fund managers and websites. Therefore, this information is as current as is available at the time of production.

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