

Baillie Gifford Japanese

Opinion

- This Recommended fund is managed according to a well-established philosophy founded by former head of Japanese Equities, Sarah Whitley.
- The fund has an exceptionally long heritage and a well-honed, clear and strongly collegiate investment process.
- From a style perspective, the growth credentials of the fund have been consistently applied through time. By dint of their dedication to this well-articulated approach, investors can be assured that the process will continue to be diligently executed.

Characteristics and Utility

- The fund is managed with a long-term mindset and whilst this has been to investors' benefit over the long run, patience may be required when the team's growth style is out of favour.
- While portfolio turnover is low, the fund is managed in a relatively concentrated fashion, resulting in a degree of variability of returns in relation to both the peer group and the benchmark.
- Sector positioning can deviate meaningfully from the benchmark and the guidelines with regard to relative positioning are broad. Indeed, risk is considered from the perspective of the risk of misunderstanding their investments, rather than the risk of being different from the index.
- The use of four thematic groups - secular growth, growth stalwarts, special situations and cyclical growth – promotes diversification.
- For benchmark-aware investors, this fund is most effectively used as a complementary holding when blended with a more index-aware fund. For balance, it may also be paired with a value-biased fund.

Risk Commentary

The fund's KIID Synthetic Risk and Reward Indicator (SRRI) is 6. This is a regulatory measurement that is, where possible, calculated from the volatility of its weekly performance over a five-year period. A score of 6 means the fund's historic volatility is between 15% and 25%.

The fund's risk score is in keeping with other funds in the sector. Its five-year volatility is higher than the sector and is broadly in line with the benchmark. Different share classes could have differing SRRI scores.



Key Fund Facts

Inception Date:	08 October 1984
Manager(s) Since:	Matthew Brett (Jun 08)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	Topix
IA Sector:	Japan

Formal documentation, including the fund prospectus and the KIID, should be sought directly from the asset manager. A link to the asset manager's website can be found on the relevant fund page at theadvisercentre.co.uk. An asset manager adviser factsheet is also provided there.

Fund Snapshot

A long-established Japanese equity fund managed by growth-orientated investors. Proprietary research and low turnover are hallmarks of the approach. Within its sector, the fund features in our 'Larger-Cap, Growth' category.

Investment Team

Fund manager, Matthew Brett joined the group in 2003 and is a member of the Japanese Equities team. Mr Brett was promoted to sole manager in April 2018 having previously co-managed the fund with Sarah Whitley, former Head of Japanese Equities. The fund's investment philosophy was founded by Ms Whitley, who announced her retirement in April 2018. Donald Farquharson, an experienced and established member of the well-resourced team, is Head of Japanese Equities.

Investment Philosophy

The team are bottom-up, growth-orientated investors. They believe that fundamental proprietary research and a long-term mindset are the key ingredients for investment success. They seek out companies generating high quality earnings that have strong competitive franchises, the value of which, they argue, is often underestimated by the market.

Investment Process

Fundamental company research lies at the heart of the process, with sector responsibilities shared across the team and rotated regularly to keep the pool of ideas refreshed. There is a very structured approach to conducting research and it is planned around various themes. They construct a "Followed List" of around 350 companies, which forms the basis of the debate at formal monthly research meetings. Any stock under consideration must pass any or all of the four primary screens, namely a positive industry background, a compelling competitive advantage, shareholder-friendly management or sound financials.

The "Focus List" of between 60 and 80 stocks, which are already held or are under consideration, is reviewed once a month, while a twice-monthly model portfolio discussion reviews potential changes to the portfolio. Companies under consideration typically display strong competitive advantages within growth industries, are generally able to fund growth organically and have management teams that run their businesses in shareholders' interests. Valuation is reviewed in relation to earnings, cashflows and returns rather than on the basis of more mechanistic measures of value. Indeed, they argue that mistakes are more often made by misjudging growth than by misjudging what to pay for it. The sell discipline is enacted when any of the four primary factors are deteriorating. Stocks in the portfolio fall into one of four generic categories – secular growth, growth stalwarts, special situations and cyclical growth, with secular growth typically being the most dominant of these. This structure promotes diversification of holdings.

Portfolio Construction and Risk Controls

The fund features 45-65 holdings, with top positions typically included at 3% weightings. Position sizes are a function of conviction and the extent to which their team's view differs from the market consensus. Turnover tends to be low.

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