BAILLIE GIFFORD

Baillie Gifford Japanese Fund

Quarterly Update

30 June 2021

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It is not intended for use by retail clients.

All information as at 30 June 2021 and source is Baillie Gifford & Co unless otherwise stated.

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Fund Objective

To outperform (after deduction of costs) the TOPIX, as stated in sterling, by at least 1.5% per annum over rolling five-year periods.

The manager believes this is an appropriate target given the investment policy of the Fund and the approach taken by the manager when investing. In addition, the manager believes an appropriate performance comparison for this Fund is the Investment Association Japan Sector.

There is no guarantee that this objective will be achieved over any time period and actual investment returns may differ from this objective, particularly over shorter time periods.

Risk Analysis

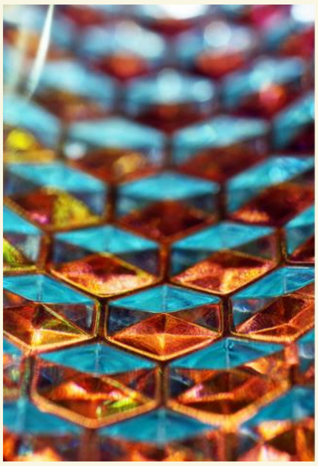
Key Statistics	
Number of Holdings	62
Typical Number of Holdings	45-65
Active Share	75%*
Annual Turnover	8%

*Relative to TOPIX. Source: Baillie Gifford & Co, Tokyo Stock Exchange.

Japanese equities underperformed most other major markets during the quarter as slow progress with vaccinations and a renewed state of emergency weighed on sentiment

The fund performed slightly better than the market during the quarter and remains well ahead over longer, more meaningful, time periods

Although a number of holdings saw their earnings and shares recover, this was offset by poor performance from internet platforms Softbank Group, SBI Holdings and Rakuten



The premium for durability

Both Serena Williams and Roger Federer have made a remarkable contribution to the world of tennis, winning 43 major titles between them in a professional career that has spanned over 20 years. At the age of 39 both still feature among the world's top players and, in a post pandemic world, will still likely attract sell-out crowds wherever they play. Other sports stars may have risen faster or commanded more attention during their time in the sun, but such consistency and durability is admirable and should be celebrated. Arguably it should be no different when it comes to our clients' investments.

Rapid growth stocks, most notably those with disruptive and novel business models, have gained most of the air time for growth investors of late and indeed have featured most prominently among the Japan Team's most successful investments for our clients during the past five to ten years. In contrast, steady growth businesses that benefit from franchise characteristics, consistent free cashflow generation and durability have been conspicuously absent from the headlines and our recent winners. This can partly be explained by a challenging domestic environment in Japan with unfavourable demographics, a deflationary mindset and poor standards of corporate governance weighing on shareholder returns. At the same time high starting valuations for what we have in the past termed 'pedestrian growth' has been an additional headwind.

We remain positively disposed to our high growth internet disruptors and global leading automation stocks alike, believing there to be a long runway of growth ahead. Considerably more attention has been given to durable franchises in recent stock and portfolio discussions, however. Businesses that we had quickly discounted in the past are now beginning to look attractive and some have made their way into the portfolio already. What has led to this change of view?

First, burgeoning Chinese wealth has transformed the potential opportunity available for a number of Japanese consumer franchises. While the Japanese domestic market may only offer low-single-digit growth, China's burgeoning middle class has an insatiable appetite for high quality, premium Japanese goods as a result of cultural similarities and geographical proximity. This is evident in skincare, where Japanese brand Pola Orbis's flagship brand Pola is held in high regard and enjoying profitable growth. Manufacturer of personal care and sanitary products Unicharm is also benefiting from rising wealth in China, with high margin incontinence and feminine care products selling well there. In areas such as skin care and hygiene Chinese consumers are willing to pay up for quality and reliability, playing into the hands of the established Japanese brands. A structural rise in inbound tourism – which began around five years ago and we expect to resume once the Covid-19 pandemic is behind us – has also created a new growth market for many Japanese retailers, as well as increasing brand

Bridgestone is a leading manufacturer of aeroplane, construction and electric vehicle tyres.

awareness among China consumers. Given the size of the Chinese market and scope for wealth to continue rising, high levels of Chinese demand for premium Japanese brands seems likely to be a multi-decade phenomenon.

Second, improving attitudes towards corporate governance has increased the scrutiny on returns generated by many Japanese companies and underpinned enthusiasm for self-help, most notably among longstanding franchises that have developed multiple inefficiencies. Tyre-making Bridgestone, which benefits from a global leading position in electric vehicles, construction and aeroplane tyres recently took the decision to sell its non-core building products business which trades under the Firestone brand, as well as consolidating its manufacturing facilities to boost returns. Beauty care and household goods specialist Kao has taken a red pen to its product portfolio, reducing the number of brands from 49 in 2019 to 19 today. We have talked at length in recent months about Japan's on-going digital transformation and this trend has not escaped its major consumer brands. Kao has developed a new digital creation centre which will aim to fully digitise marketing activities and product development. Not only does the company expect this to reduce costs and shorten the time from product development to commercialisation but it will also utilise artificial intelligence to optimise inventory and procurement management. Bridgestone now claims to be a leading player in vehicle fleet management following its acquisition of TomTom Telematics in 2019. As well as offering services such as tracking vehicle location and route optimisation Bridgestone is also making efforts to develop new offerings in areas such as predictive maintenance, driver behaviour monitoring and 'tyres as a service'. In doing so the company hopes to enrich its after-market services such as tyre retread, as well as strengthening its overall competitive position.

The usual playbook during a global recession is that durable businesses with high market shares and franchise characteristics fare better and this is reflected in share-price performance. Indeed, this was the case when we endured the financial crisis in 2008/2009 and at this time our holdings in steady and resilient growth areas such as telecoms, consumer goods and transport served us well. This past year has been very different, however. With everyone confined to their homes and social distancing measures operating across the world, internet platforms of all favours have flourished, while manufacturers and retailers of goods and services that are dependent on more traditional sales channels have suffered. For example, although we would widely regard tyres as an essential good which benefits from replacement demand that would normally protect profits during a downturn, in the past 15 months miles driven have collapsed and there has been almost no commercial air travel to speak of. Similarly, with curtailments operating across all forms of social activity cosmetics have not featured highly on most peoples' shopping list.

This has resulted in a third dynamic: many consumer franchises with durable growth prospects have seen their profits and share prices fall precipitously and now command their lowest valuations in many years. Even though the world is now opening up and there are clear signs of a recovery in economic activity, these franchises appear to have been overlooked so far, with investors allocating more funds to lower quality cyclicals to benefit from normalisation after Covid. Bridgestone and Kao have derated to their lowest earnings multiples in many years, in spite of undergoing self-help and benefiting from an improving industry backdrop. Put another way, we believe that both these businesses will enjoy a snap back in earnings as the word returns to normal, while at the same time they will deliver profitable earnings growth for many years to come in a variety of conditions, perhaps with the exception of another global pandemic.

We adopt a flexible approach to growth investing with no preconceptions as to where growth might come from and what form it may take. When we look out five years into the future it seems likely that many of Japan's leading consumer franchises will have rediscovered their mojo and in doing so will once again command a valuation premium. We are hopeful that this combination of growth and rerating will deliver the two times upside that we look for in our investments, as well as providing the portfolio with greater resilience. Just like iconic sports stars, great companies can persist through challenging times, constantly improve and continue to deliver for many years.

The views expressed reflect the personal opinion of the author and should not be considered as advice or a recommendation to buy, sell or hold a particular investment.

Periodic Performance

	3 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)
Class B-Acc (%)	-0.1	18.0	7.4	14.2
Index (%)*	-0.9	10.7	4.7	9.3
Target (%)**	-0.5	12.4	6.3	11.0
Sector Average (%)***	-0.4	13.3	5.7	10.3

Performance source: FE, StatPro, Tokyo Stock Exchange, total return in sterling.
*TOPIX.
**Target refers to Target Benchmark: TOPIX +1.5%
***IA Japan Sector.

Discrete Performance

	30/06/16-30/06/17	30/06/17-30/06/18	30/06/18-30/06/19	30/06/19-30/06/20	30/06/20-30/06/21
Class B-Acc (%)	34.6	16.1	0.4	4.7	18.0
Index (%)*	24.2	9.5	-2.1	6.1	10.7
Target (%)**	26.1	11.1	-0.7	7.7	12.4
Sector Average (%)***	24.9	10.7	-3.4	7.8	13.3

Performance source: FE, StatPro, Tokyo Stock Exchange, total return in sterling.
*TOPIX.
**Target refers to Target Benchmark: TOPIX +1.5%
***IA Japan Sector.

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to 30 June 2021

Stock Name	Contribution (%)
Asics	0.4
Misumi	0.4
CyberAgent Inc	0.3
Mazda Motor	0.3
Daiichi Sankyo Company	0.3
INPEX	0.2
Bridgestone	0.2
Topcon Corp	0.2
Toyota Tsusho Corp	0.2
Mercari Inc	0.1
SoftBank Group	-0.5
Bank Of Kyoto	-0.4
SBI Holdings	-0.4
Kubota	-0.3
Sumitomo Mitsui Trust	-0.2
Hitachi	-0.2
Toyota Motor	-0.2
Rakuten	-0.2
Sumitomo Metal Mining Co Ltd	-0.2
Fujitsu	-0.2

One Year to 30 June 2021

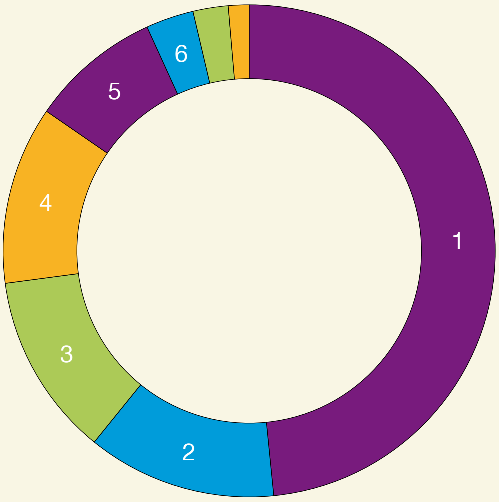
Stock Name	Contribution (%)
SoftBank Group	1.3
Denso	0.7
Outsourcing	0.6
CyberAgent Inc	0.6
Toyota Tsusho Corp	0.5
Asics	0.5
Mazda Motor	0.5
Bridgestone	0.4
Daiichi Sankyo Company	0.4
Topcon Corp	0.4
GMO Internet	-0.7
Calbee Inc	-0.6
Colopl Inc	-0.5
Japan Exchange Group	-0.5
Hitachi	-0.4
Tokyo Electron	-0.3
Kao	-0.3
SBI Holdings	-0.3
Toyota Motor	-0.2
MITSUBISHI UFJ FIN GRP	-0.2

Source: StatPro, Tokyo Stock Exchange. Baillie Gifford Japanese Fund relative to TOPIX.
Some stocks may have been held part period.

Top Ten Holdings

Stock Name	Description of Business	% of Portfolio
SoftBank Group	Telecom operator and technology investor	5.6
Rakuten	Internet retail and financial services	4.3
SBI Holdings	Online financial services	3.2
GMO Internet	Internet conglomerate	3.2
Nintendo	Gaming consoles & software	3.1
Kubota	Agricultural machinery	3.0
Sumitomo Mitsui Trust	Japanese trust bank and investment manager	3.0
DENSO	Auto parts	2.8
Misumi	Online distributor of precision machinery parts	2.8
FANUC	Robotics manufacturer	2.7
Total		33.7

Totals may not sum due to rounding.



	Sector Weights	(%)
1	Manufacturing	48.4
2	Transport And Communications	12.4
3	Services	12.1
4	Finance & Insurance	11.7
5	Commerce	8.6
6	Real Estate	3.1
7	Mining	2.3
8	Cash	1.4

A negative cash position may sometimes occur due to obligations awaiting settlement.

Rights, responsibilities and sustainable returns

The oldest known bill of rights is thought by many historians to be the Cyrus Cylinder. Following the conquest of the City of Babylon by the armies of Cyrus the Great, the first king of ancient Persia, Cyrus apparently freed the slaves, declared that all people had the right to choose their own religion and established racial equality. These and other decrees were recorded on a baked-clay cylinder in the Akkadian language with cuneiform script.

Recognising this ancient object, now residing in the British Museum, as the world's first charter of human rights, the script has been translated into all official languages of the United Nations and its provisions parallel the first four Articles of the 1948 Universal Declaration of Human Rights.

Many centuries later, the adoption of the Universal Declaration of Human Rights by the United Nations General Assembly on 10 December 1948 was the final act in one of the most remarkable achievements in human history. Out of the ashes of the second world war, an international committee headed by the charismatic and dynamic former US First Lady Eleanor Roosevelt and Vice Chair PC Chang of China managed to draft a 'universal bill of rights' that was endorsed by almost every country in the world (there were a small number of abstentions).

Before then, there had been a number of hugely significant milestones towards universal rights such as the Magna Carta (1215), the French Declaration of the Rights of Man and of the Citizen (1789), and the US Bill of Rights (1791), but there had never before been a declaration of rights that explicitly applied to everyone, regardless of race, gender, economic circumstance and beliefs.

Members of the United Nations Commission on Human Rights rehearsing in the Delegates Lounge for a television show *You and Human Rights.*

Left to right are: Professor Rene Cassin, France; Dr PC Chang, China; Quincy Howe, CBS (Columbia Broadcasting Service), moderator; Mrs Eleanor Roosevelt, US, Commission Chairman; Dr Charles Malik, Lebanon, and Mr E Kelen of UN Radio Division.

Despite being over 70-years-old today, the Universal Declaration is still the foundation for all international human rights law, and the fundamental rights that it sets out are as relevant as ever. One of the reasons for the Declaration's ongoing significance and longevity is the principle of 'universalism' that runs through the document. At the insistence of Vice Chair PC Chang, the Chinese diplomat, philosopher and playwright whose membership of the drafting committee was of pivotal importance, there was no direct mention of any specific religion with respect to the principles, only freedom of religion as a right. This ensured that the principles in the Declaration were articulated as natural, inalienable rights that could not be arbitrarily revoked by monarchs, clerics or politicians.

While this brief history of rights is of innate academic interest, human rights is a topic of rapidly growing currency and importance in investment management and the wider business community.

Until relatively recently, the responsibility for protecting human rights fell on sovereign states, supported by a number of international agencies and non-governmental organisations (NGO). However following several high profile incidents in the latter 20th century, not least the perceived lack of intervention by oil and gas companies during the trial and execution of Nigerian community activist and environmental protestor Ken Saro-Wiwa in 1995, the United Nations became increasingly interested in the role that businesses could play in supporting the protection of human rights. This culminated in human rights being specifically included in the United Nations Global Compact, launched in 2000 as a framework for socially responsible business operations, embodied in the first two of 10 principles:

"Businesses should support and respect the protection of internationally proclaimed human rights (Principle One); and businesses should make sure that they are not complicit in human rights abuses (Principle Two)".

This was followed up by the much more detailed United Nations Guiding Principles on Business and Human Rights, endorsed in 2011. More recently, many businesses have also recognised the role that they can play in supporting the achievement of the UN Sustainable Development Goals, particularly with respect to basic universal needs such as primary healthcare, nutrition and sanitation.

From this relatively recent, tentative start, human rights awareness, and many accompanying dilemmas, are now everywhere in business, not least because of the role of social media and increasing NGO and employee activism in holding companies to account. The resulting reputational risk from the mishandling of human rights issues is ensuring that the 's in esg' – social – is rapidly reaching parity with the environmental ('e') and governance ('g') issues in terms of commercial importance. Whether this is considered by all to be appropriate or not, many businesses have learned the hard way that stakeholder expectations have changed beyond all recognition from the Milton Friedman thesis that the sole responsibility of the corporation was to make money for shareholders.

In the past few years alone, Rio Tinto's Chief Executive Jean-Sébastien Jacques was forced to resign after a number of aboriginal cultural sites were destroyed during the company's mining operations; numerous fashion companies have been publicly named and shamed for allegedly having forced labour in their supply chains; companies providing products or services linked to detention centres in the US and China have found themselves in the cross-hairs of campaign groups around the world; and corporations have been accused of being tacitly 'part of the problem' in the lack of progress in improving the human rights and economic empowerment of black, minority and first nation citizens in a number of countries.

While many people tend to think of issues as modern slavery and discrimination against minority groups when they think of human rights in the economy, there are also a range of evolving areas where different conceptions of employee and consumer rights are coming to the fore. These include the right to digital privacy, gender and identity rights in the workplace and the right to safer working conditions for all, the latter starkly highlighted by some of the inequalities of the pandemic. Human rights are also increasingly relevant to discussions on the best way to 'net-zero' emissions, taking account of issues such as the economic rights of workers in the fossil fuel industry during a 'just transition' and the right to protection from the adverse physical impacts of climate change. Technology platforms are also grappling with the at times competing rights of free speech on one hand and a content stewardship duty of care towards protected characteristics groups and vulnerable users online.

For all of the above reasons, we are engaging with our holdings on business and human rights issues, supported by additional research in this area being undertaken by the Baillie Gifford Governance and Sustainability Team and a newly established Investment Human Rights Research Group. We encourage all management teams to understand the growing expectations on their business to understand their obligations and support the protection of human rights within their sphere of influence.

Our experience to date is that the ambitious, innovative and growth-oriented kinds of companies that we aim to hold typically have no interest whatsoever in being even remotely connected to human rights abuses, and are often passionate to do what they can to support progress in this area. While it can be hard (and at times counter-productive) to take bold public positions in highly sensitive areas, very considerable amounts of thought and commitment are discretely going into improving human rights standards across international business and supply chains, much of this taking place under the auspices of invaluable initiatives such as the UN Global Compact, to which we are a long-standing signatory.

Human rights are at their most difficult and contentious when countries at different stages of development place differing emphasis on the trade-offs between individual rights and collective national security or economic development goals. Investors and companies alike are nevertheless still expected to be positive advocates for human rights in these circumstances, or at the very least not complicit in abuses, even though most rightly understand the limitations of their sphere of influence and the very significant risks from missteps in this arena. For our part, we will report back on our work in this critically important and rapidly evolving area in our client and regular investment stewardship reporting.

There were no new purchases during the period.

Complete Sales

Stock Name	Transaction Rationale
Japan Petroleum Exploration	Japan Petroleum Exploration is a Japanese oil and gas company. The bulk of the value of the company is made up of its holding in Inpex, but we have increasing concerns about the long-term value of the various other assets that the company holds as environmental considerations become more paramount. We have therefore decided to sell the holding to reinvest where we see better prospects.
ZOZO Inc	ZOZO (formerly Start Today) is Japan's leading online fashion website. Z Holdings (a subsidiary of Softbank Corp) has established a controlling stake in the company and ZOZO's founder, Yusaku Maezawa, is no longer involved in the management and has very materially reduced his stake in the company. Initially being integrated into Z holdings has been helpful to ZOZO but as we look forward we feel that the case is materially weakened. We no longer have alignment with an entrepreneur, there are signs that Z holdings would prefer more fashion sales to go through other entities in Z Holdings, and the brand identity of ZOZO is becoming increasingly stretched. Therefore, following earlier reductions, we decided to sell the final part of the holding.

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