

Baillie Gifford Japanese Smaller Companies Fund

31 December 2023

About Baillie Gifford

Philosophy	Long-term investment horizon A growth bias Bottom-up portfolio construction High active share
Partnership	100% owned by 57 partners with average 20 years' service Ownership aligns our interests with those of our clients Enables us to take a thoughtful, long-term view in all that we do Stability, quality and consistency

Investment Proposition

We invest in attractively valued smaller companies that we believe offer good growth opportunities. Growth may come from innovative business models, disrupting traditional Japanese business practises, or market opportunities such as growth by Japanese companies outside Japan.

Fund Facts

Fund Launch Date	01 April 1983
Fund Size	£257.6m
IA Sector	Japan
Active Share	95%*
Current Annual Turnover	18%
Current number of stocks	74
Stocks (guideline range)	40-80

*Relative to MSCI Japan Small Cap Index (in sterling). Source: Baillie Gifford & Co, MSCI.

Fund Manager

Name	Years' Experience
Praveen Kumar	15
Paul Schwerda	5

Fund Objective

To outperform (after deduction of costs) the MSCI Japan Small Cap Index, 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.

Periodic Performance

	3 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)
Class B-Acc (%)	1.7	-11.3	-15.6	-2.4
Index (%)*	2.9	7.4	1.9	4.7
Target (%)**	3.3	9.0	3.4	6.3
Sector Average (%)***	3.7	11.6	1.4	6.8

Source: FE, Revolution, MSCI. Total return net of charges, in sterling.

Share class returns calculated using 10am prices, while the Index is calculated close-to-close.

Baillie Gifford operates a single swinging price for the Fund and, therefore, may apply a dilution adjustment to the price to protect long-term investors from the costs associated with buying and selling underlying investments that result from other investors joining or leaving the Fund. This adjustment will affect relative performance, either positively or negatively.

*MSCI Japan Small Cap Index (in sterling).

**MSCI Japan Small Cap Index (in sterling) plus at least 1.5% per annum over rolling five-year periods.

***IA Japan Sector.

Discrete Performance

	31/12/18- 31/12/19	31/12/19- 31/12/20	31/12/20- 31/12/21	31/12/21- 31/12/22	31/12/22- 31/12/23
Class B-Acc (%)	12.9	30.0	-14.9	-20.3	-11.3
Index (%)*	15.2	3.5	-1.0	-0.6	7.4
Target (%)**	16.9	5.1	0.4	0.9	9.0
Sector Average (%)***	17.2	13.8	1.8	-8.1	11.6

Source: FE, Revolution, MSCI. Total return net of charges, in sterling.

Share class returns calculated using 10am prices, while the Index is calculated close-to-close.

Baillie Gifford operates a single swinging price for the Fund and, therefore, may apply a dilution adjustment to the price to protect long-term investors from the costs associated with buying and selling underlying investments that result from other investors joining or leaving the Fund. This adjustment will affect relative performance, either positively or negatively.

*MSCI Japan Small Cap Index (in sterling).

**MSCI Japan Small Cap Index (in sterling) plus at least 1.5% per annum over rolling five-year periods.

***IA Japan Sector.

Market environment

Waning inflation and buyouts appeared to be the noteworthy issues within the Japanese market during the fourth quarter; both factors point to an increasingly appealing opportunity for the year ahead.

The Bank of Japan continued slowly easing its way out of an ultra-loose monetary policy by removing its hard cap on bond yields. However, it refrained from raising rates, leaving it as the only sizeable central bank with negative interest rates.

Japan's dovish and cautious approach to monetary policy reflects concerns over the transitional nature of inflation. Many believe it is not sticky nor substantial enough to combat the deflation that has plagued the nation for decades. Signs that it is beginning to subside (core inflation slowed sharply in November) and the Fed's recent pivot support such an argument.

The Yen subsequently strengthened into year-end, and banks lost ground as investors took profits and shifted towards growthier areas of the market that have hitherto been impacted by the 'higher for longer' sentiment that prevailed for most of 2023.

We continue to examine the fundamentals of our holdings and the strength of our investment theses. In aggregate, we remain confident of the longer-term structural trends that underpin the Fund.

Performance

Among the top contributors to performance were Wealthnavi, Jeol and HORIBA.

WealthNavi is Japan's leading digital robo-wealth management platform. The business is progressing well, and recent results saw the number of users on the platform increase by 9% to 383,000. This has been helped by an increase in the openings of the new tax-sheltered individual savings accounts (NISA). Financial advice in Japan has historically been narrowly focused on the wealthy few, and we think that WealthNavi is making strides to redress this.

Jeol, the specialist manufacturer of high-powered microscopes and other scientific analysis equipment, saw its share price soar following results significantly above consensus. Sales increased and operating profit was up 20% year-over-year. Scientific and Metrology Instrument orders continue to be strong and the company remains focused on enhancing its profit through expansion in overseas markets, commercial use and the development of innovative new products.

HORIBA, the measurement and analysis equipment maker serving several end markets, continues to go from strength to strength. Results for the first nine months of 2023 saw total sales increase by 15% year-over-year, with the majority of sales coming from the semiconductor and automotive segments. We expect

the semiconductor area will continue to be the main growth driver for HORIBA, and it looks well-placed to meet the overall demand.

Among the bottom detractors from performance were Nakanishi, Kumiai Chemical and Yonex.

Nakanishi, the dental equipment manufacturer, saw its share price fall as results fell short of consensus. Despite this, top-line growth remains strong, with sales increasing by 11% year-over-year, with Asia seeing a recovery and continued demand in Europe and Japan. The company has also been growing its market share in the US dental industry, bolstered by the high reputation of its products.

Kumiai Chemical is an R&D type agrochemicals manufacturer. Fourth quarter results saw the company posting an operating loss of ¥20 million, which was larger than expected. This was likely driven by inventory adjustments in Brazil and a price decline in Australia. Despite this, overall results were positive, with top-line growth of 15% over the previous year. The company has a proven track record of bringing innovative products to market, and we remain confident in its ability to grow from here.

Yonex, one of the leading badminton racket brands in the world, continues to see demand for its products in all regions. Following the resumption of international competitions, Yonex has seen an uptick in sales promotion activities. Recent results saw sales increase by 15% year-over-year, driven mainly by growth in China. Despite these encouraging results, the company saw its share price decline during the quarter.

Notable transactions

We sold Tsubaki Nakashima, the global manufacturer of steel and ceramic balls, following some concerns around the company's financial management. We put the sale proceeds into a new holding of Oisix, the online meal kit and organic food company.

We also took a new position in Anest Iwata the manufacturer of air compressors, vacuum pump equipment and paint application systems. This was funded by the complete sale of Pigeon, the baby-care product manufacturer which is facing strong competition from domestic and foreign peers in China.

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to 31 December 2023

Stock Name	Contribution (%)
Wealthnavi	0.8
Jeol	0.4
Lifenet Insurance	0.4
SWCC Corporation	0.3
HORIBA	0.3
Harmonic Drive Systems	0.3
Outsourcing	0.3
OSG	0.3
Infomart	0.3
Demae-Can	0.2
Nakanishi	-1.0
Kumiai Chemical	-0.5
CellSource	-0.4
Yonex	-0.4
Nittoku	-0.3
Screen	-0.3
Shoei	-0.3
Descente	-0.3
Toyo Tanso	-0.3
I-ne	-0.3

One Year to 31 December 2023

Stock Name	Contribution (%)
Megachips	0.9
Wealthnavi	0.5
Jeol	0.4
HORIBA	0.4
Bengo4.Com	0.4
SWCC Corporation	0.3
Jade	0.3
Outsourcing	0.3
Kitz Corp	0.2
Asahi Intecc	0.2
Open Door	-1.4
Nihon M&A	-1.1
Raksul	-1.1
Snow Peak	-1.0
Kamakura Shinsho	-0.9
Katitas	-0.9
eGuarantee	-0.7
Shoei	-0.7
Nakanishi	-0.6
KH Neochem	-0.6

Source: Revolution, MSCI. Baillie Gifford Japanese Smaller Companies Fund relative to MSCI Japan Small Cap Index (in sterling).

Some stocks may only have been held for part of the period.

All attribution figures are calculated gross of fees, relative to the Index from stock level up, based on closing prices.

As Attribution is shown relative to the benchmark, not all stocks shown are held in the portfolio. See the List of Holdings section of this report for the stocks held.

Transactions from 01 October 2023 to 31 December 2023.

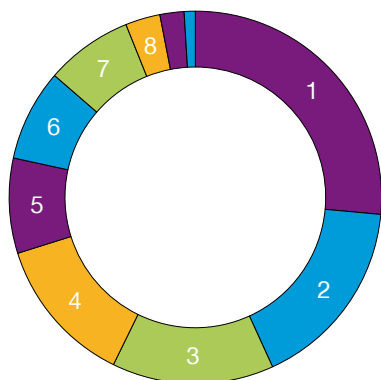
New Purchases

Stock Name	Transaction Rationale
Anest Iwata	Anest Iwata is a manufacturer of air compressors, vacuum pump equipment and paint application systems. Established in 1926, it has a long history of innovation and enjoys a dominant domestic and global market share. It operates in niche but consolidated markets and makes good margins and returns. A feature of its compressors and paint application systems is their environmental friendliness. It sells oil-free scroll type compressors that are lighter and more energy efficient. Its paint application system has been designed to work well with water based paints for automobiles. Tightening environmental regulations are driving demand for its products, which should result in a steady expansion of sales and profits longer-term. The company has a net cash balance sheet, has bought back a lot of shares over the years, and has a very progressive dividend policy. The shares appear attractively valued given the long-term growth prospects and we therefore decided to take a holding.
Oisix	Oisix provides high-quality meal kits and organic food through online ordering. Both areas have been growing from a low base in Japan, and we believe they have a long growth runway ahead. Oisix has strong relationships with organic farmers and has been investing in distribution efficiency which will depress short-term profits but deepen the long-term competitive edge. Founder Mr Kohei has largely delivered on his growth ambitions, and his 13% stake in the business gives good alignment. The recent setback in the share price encouraged us to buy a holding.

Complete Sales

Stock Name	Transaction Rationale
Pigeon	Pigeon is a Japanese baby-care product manufacturer with high market shares in certain categories and geographies, most notably China. We have admired the business and regarded it as having a strong competitive position over the years but recent evidence suggests that this strong position is being eroded rather quickly by a clutch of domestic and foreign peers in China. Consequently, growth has slowed and we worry that the company might not recover to its former profitable levels. We have therefore sold our entire holding in the company.
Poletowin	Poletowin is a games software debugging company that we have owned for over a decade. It serves both Japanese and global gaming companies in debugging and localising games for specific markets, including providing language translation related services. While the overall gaming industry has grown during this period the company has struggled to match this growth, especially in terms of profits. The company has made numerous acquisitions, mostly overseas, but there hasn't been any noticeable positive impact on sales and profits from these acquisitions thus far. Instead, the company has recently become embroiled in an accounting related issue at one of its overseas subsidiaries. We worry that the group structure has become quite complex at Poletowin due to numerous acquisitions that management have made over the years. We recently spoke to the new management team who indicated that growth from here is likely to be slower than before given rising levels of competition and increasing maturity of the gaming market in general. Overall, we are left quite underwhelmed by the investment case here and hence decided to sell our entire holding in the company.
Tsubaki Nakashima	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. However, following a period of private equity ownership the balance sheet is quite highly geared, and it was a surprise to us when management decided to do a share buyback last year. Recently, the company has had an issue where the write-down of an acquisition's carrying value led to a technical breach of some of the company's covenants and the auditor issued a qualified audit statement regarding the company's status as a going concern. Although the situation has subsequently been resolved, it has led to further doubts as to the appropriateness of the company's financial management. The company also issued equity recently which will result in a near 50% dilution over the next couple of years. Given these operational and financial issues, we decided to sell the shares.

Sector Exposure



		%
1	Industrials	26.5
2	Information Technology	16.7
3	Consumer Discretionary	14.1
4	Financials	12.9
5	Health Care	8.3
6	Consumer Staples	8.0
7	Communication Services	7.6
8	Materials	3.0
9	Real Estate	2.1
10	Cash	1.0

As well as cash in the bank, the cash balance includes unsettled cash flows arising from both shareholder flows and outstanding trades. Therefore, a negative balance may arise from timing differences between shareholder flows and security trading, and does not necessarily represent a bank overdraft.

Top Ten Holdings

Stock Name	Description of Business	% of Portfolio
Cosmos Pharmaceutical	Drug store chain	3.5
Asahi Intecc	Specialist medical equipment	2.9
GMO Financial Gate	Develops and manufactures transaction management systems	2.7
WealthNavi	Operates a wealth management platform	2.6
Megachips	Electronic components	2.4
Lifenet Insurance	Provides a range of life insurance products and services.	2.3
Sho-Bond Holdings	Infrastructure reconstruction	2.2
TechnoPro	IT staffing	2.2
Nifco	Value-added plastic car parts	2.2
eGuarantee	Guarantees trade receivables	2.1
Total		25.1

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	7	Companies	None	Companies	None
Resolutions	70	Resolutions	None	Resolutions	None

Long-term investing and sustainability are inextricably linked

The strategy continues to ensure our Environmental, Social, and Corporate governance (ESG) research, integration and stewardship activities are focused on issues material to the investment case and companies' long-term growth prospects

Our engagements this quarter have covered a wide range of topics, including supply chain transparency, board effectiveness, and remuneration

Company Engagement

Engagement Type	Company
Environmental	CrowdWorks Inc., Cybozu, Inc., Demae-Can Co.,Ltd, FreakOut Holdings, inc., KATITAS CO., Ltd., Kohoku Kogyo CO.,LTD., OPTEX GROUP Company, Limited, Seria Co., Ltd., SpiderPlus & Co., Torex Semiconductor Ltd., WDB Holdings Co., Ltd.
Social	M3, Inc.
Governance	Bengo4.com,Inc., COSMOS Pharmaceutical Corporation, Cybozu, Inc., DaikyoNishikawa Corporation, Demae-Can Co.,Ltd, FreakOut Holdings, inc., Kohoku Kogyo CO.,LTD., OPTEX GROUP Company, Limited, Seria Co., Ltd., Torex Semiconductor Ltd., WDB Holdings Co., Ltd., istyle Inc.

For further details on company engagement please contact us. You can also find further information on how we integrate environmental, social and governance (ESG) matters into our investment approach, [here](#).

Asset Name	Fund %
Cosmos Pharmaceutical	3.5
Asahi Intecc	2.9
GMO Financial Gate	2.7
WealthNavi	2.6
Megachips	2.4
Lifenet Insurance	2.3
Sho-Bond Holdings	2.2
TechnoPro	2.2
Nifco	2.2
eGuarantee	2.1
KATITAS	2.1
Nakanishi	2.1
OSG	2.1
LITALICO	2.0
Toyo Tanso	2.0
RakSul	2.0
MatsukiyoCocokara	2.0
Optex	1.9
Bengo4.com	1.9
Jeol	1.8
Descente	1.8
Yonex	1.8
SIIX	1.7
GA Technologies	1.6
Anicom	1.6
Harmonic Drive Systems	1.6
GMO Payment Gateway	1.6
KH Neochem	1.5
Appier Group	1.5
AVEX INC.	1.5
Infomart	1.5
Iriso Electronics	1.5
Kumiai Chemical Industry	1.5
Nittoku	1.4
Noritsu Koki	1.4
Tsugami	1.4
HORIBA	1.4
I-ne	1.3
Nikkiso	1.3
Cybozu	1.2
SWCC Corporation	1.2
Vector	1.2
Shoei	1.2
Kitz	1.2
SpiderPlus	1.1
Demae-Can	1.0
Kohoku Kogyo	1.0
Seria	0.9
Jade	0.9

Asset Name	Fund %
PeptiDream	0.9
MonotaRO	0.9
oRo	0.9
ENECHANGE	0.8
Oisix	0.8
Kamakura Shinsho	0.8
Nippon Ceramic	0.8
Crowdworks	0.8
Shima Seiki Mfg.	0.8
Weathernews	0.8
Nabtesco	0.7
Daikyonishikawa	0.7
OpenDoor	0.6
Snow Peak	0.5
Istyle	0.5
Torex Semiconductor	0.5
CellSource Co., Ltd.	0.4
WDB Holdings	0.3
Akatsuki	0.3
Kitanotatsujin	0.3
Anest Iwata	0.3
Outsourcing	0.3
Nihon M&A	0.2
M3	0.2
FreakOut	0.2
Cash	1.0
Total	100.0

Please note the fund information contained within this document is proprietary information and should be maintained as such and not disseminated. The content is intended for information purposes only and should not be disclosed to other third parties or used for the purposes of market timing or seeking to gain an unfair advantage.

Share Class	Share Class Inception Date	ISIN	SEDOL	Annual Management Fee (%)	Ongoing Charge Figure (%)
Class B-Acc	02 September 1999	GB0006014921	0601492	0.60	0.62
Class B-Inc	01 April 1983	GB0006014582	0601458	0.60	0.62

The table displays the primary shares classes. Other share classes may be available for those investors who have a separate arrangement. Charges will reduce the value of your investment. Please refer to the Prospectus and Key Investor Information Document for further details.

MSCI	Source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indexes or any securities or financial products. This report is not approved, endorsed, reviewed or produced by MSCI. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.
------	--

This document contains information on investments which does not constitute independent investment research. Accordingly, it is not subject to the protections afforded to independent research and Baillie Gifford and its staff may have dealt in the investments concerned. Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.

This document is issued by Baillie Gifford & Co Limited, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, a company which is authorised and regulated by the Financial Conduct Authority, Financial Services Register No. 119179, and is a member of The Investment Association. Baillie Gifford & Co Limited is wholly owned by Baillie Gifford & Co, which is authorised and regulated by the Financial Conduct Authority. Baillie Gifford Overseas Limited is wholly owned by Baillie Gifford & Co. Baillie Gifford Overseas Limited provides investment management and advisory services to non-UK clients. Both are authorised and regulated by the Financial Conduct Authority.

Additional Geographical Location Information

Israel: This Report, as well as investment in the Fund described herein, is directed at and intended for Investors that fall within at least one category in each of: (1) the First Schedule of the Israeli Securities Law, 1968 (“Sophisticated Investors”); and (2) the First Schedule of the Investment Advice Law (“Qualified Clients”).

The Fund’s share price can be volatile due to movements in the prices of the underlying holdings and the basis on which the Fund is priced.

As with any investment, the clients’ capital is at risk. Past performance is not a guide to future returns.

Throughout the report all figures are rounded, so any totals may not sum. Not all stocks mentioned may be held by the portfolio.

All information as at 31 December 2023 and source is Baillie Gifford & Co unless otherwise stated.