BAILLIE GIFFORD

Developed Asia inc Japan Quarterly Update

30 September 2021

Contents

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Past Performance

Past performance is not a guide to future returns. Changes in investment strategies, contributions or withdrawals may materially alter the performance and results of the portfolio.

Potential for Profit and Loss

All investment strategies have the potential for profit and loss.

Stock Examples

Any stock examples, or images, used in this paper are not intended to represent recommendations to buy or sell, neither is it implied that they will prove profitable in the future. It is not known whether they will feature in any future portfolio produced by us. Any individual examples will represent only a small part of the overall portfolio and are inserted purely to help illustrate our investment style. A full list of portfolio holdings is available on request.

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Product Overview

Developed Asia inc Japan is a long-term, regional equity strategy adding value through active management by identifying and exploiting inefficiencies in growth companies predominantly listed in Japan, Hong Kong, Singapore, Australia and New Zealand.

Risk Analysis

Key Statistics	
Number of Holdings	49
Typical Number of Holdings	30-50
Active Share	80%*
Rolling One Year Turnover	20%

*Relative to MSCI Pacific Index. Source: Baillie Gifford & Co, MSCI.

Developed Asian markets edged into positive territory during the quarter. Despite this benign outcome there was significant divergence across the various markets within the region

Japan was the top performing market, boosted by an acceleration of vaccination rates and a warm reception from investors to a change in leadership. In contrast, a regulatory crackdown in China weighed on Hong Kong listed stocks

The portfolio delivered a positive return but lagged the benchmark in a challenging environment for growth stocks

Baillie Gifford Key Facts

Assets under management and advice	US$466.8bn
Number of clients	870
Number of employees	1576
Number of investment professionals	319

During the past few months, we have begun a process of documenting a forward-looking hypothesis for each of the holdings. This involves mapping out the key tenets of our thesis, looking out at least five years, and detailing the waypoints that will indicate if the company is on the right track. This is not a perfect science: sometimes the holdings will succeed or fail in ways we did not expect, but we believe it to be a helpful input to our investment process and a useful way of reminding us what matters to the long-term investment case and what doesn't.

Markets have a tendency to overreact to news that has little bearing on the long-term investment case and underappreciate genuine progress that strengthens an investment case. This past quarter has been a case in point. Concerns surrounding the failure of Chinese real estate giant Evergrande has caused shockwaves across the Hong Kong stock market and weighed on several of the holdings, even though its effects are likely to prove ephemeral and be restricted to a subset of the market.

Similarly, a recent regulatory crackdown on the gaming industry induced a correction of the holding in Tencent. We have been there before when there was a delay in approving several new gaming titles and Tencent bounced back, continuing to deliver strong growth in gaming after a brief pause, as well as expanding successfully into other profitable areas. At the same time continued pressure applied to Alibaba subsidiary Ant Financial (not held in the portfolio) has caused the discount between SoftBank's shares and the value of its assets to widen. While unhelpful in the short term, this will all be forgotten in five years' time if these assets have increased in value significantly, as we believe they will.

During the quarter a number of niche internet business featured among the largest detractors, even though they delivered strong operational performance. While the market has used the excuse of rising interest rates to justify a derating of higher multiple growth stocks, we

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have been observing continued top-line growth and been quietly adding to some of the positions. For example, recently purchased Japanese software as a service platform Freee fell in value by almost a fifth during the quarter despite continuing to enjoy almost 50 per cent top-line growth, adding several new applications and maintaining a low single-digit customer churn rate. Following an encouraging meeting with management we added to the holding. Japanese online media business CyberAgent also featured among the poorest performers during a quarter in which it reported excellent results. It saw its revenues rise by 50 per cent with all three of its growth pillars: gaming, advertising and TV streaming seemingly firing on all cylinders.

Underneath the cloak of macro news flow which dominated the headlines there was some noteworthy stock specific news flow to report. Japanese cycling components business Shimano, which has proven to be a major beneficiary of the pandemic, reported its best ever quarterly results, with an 82 per cent rise in operating profit when compared to the previous years. Linking it to our forward-looking hypothesis: more people are taking up cycling, customers are upgrading to higher value Shimano products and electric bikes continues to develop as a new growth pillar as it broadens the cycling demographic. This has led the company to establish two new state of the art production facilities.

Another holding that is worthy of highlighting is staffing and human resource technology company Recruit. Its profits increased by a staggering 390 per cent in the year to end of June, underpinning a major increase in guidance for the company's financial year. Our thesis with Recruit is based on its unique culture, the strength of its online platform, Indeed and its ability to identify and succeed in new growth areas. To this end we are greatly encouraged by the explosive growth of Indeed, which is emerging as a global leader in online search and by the traction being gained in a new series of software-as-service products in Japan.

As it happens both Shimano and Recruit were the top two performers for the portfolio during the quarter; however leading skincare franchise Shiseido was one of the weakest names but here there was also news that supported our forward-looking hypothesis. During the quarter it announced that it will sell non-core US businesses Bare Minerals, Buxom and Laura Mercier, continuing the process of repositioning the business towards premium skin care brands in Asia. We regard this as good news and supportive of our theses that premium skin care in Asia, notably China, is a highly attractive and long duration growth opportunity. During the quarter the market was more interested in the impacts of the delta variant of Covid-19 and the continued state of emergency in Japan. We thought differently.

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.

Performance Objective

+2% p.a. over 5 years, gross of fees vs benchmark.

The performance objective stated is in no way guaranteed. The performance target is aspirational and is not used for the purpose of determining or constraining the composition of the portfolio. Performance may vary between segregated accounts and pooled funds in different jurisdictions as each structure will bear a different set of costs. A single performance target may not be appropriate for all vehicles in all jurisdictions and for this reason our portfolio specific materials will often refer to 'material' outperformance of a benchmark.

Periodic Performance

	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months*	0.6	1.7	-1.1
YTD*	2.1	5.7	-3.6
1 Year*	19.3	23.5	-4.2
3 Years	11.2	7.6	3.6
5 Years	12.7	9.2	3.6
10 Years	11.2	8.3	2.9
Since Inception	10.3	7.1	3.2

Annualised periods ended 30 September 2021. *Not annualised.
Inception date: 31 August 2009.
Figures may not sum due to rounding.
Benchmark is MSCI Pacific Index.
Source: StatPro, MSCI.
US dollars

Discrete Performance

	30/09/16-30/09/17	30/09/17-30/09/18	30/09/19-30/09/19	30/09/19-30/09/20	30/09/20-30/09/21
Composite Net (%)	11.6	18.6	-3.7	19.8	19.3
Benchmark (%)	14.5	8.5	-1.9	2.9	23.5

Benchmark is MSCI Pacific Index.
Source: StatPro, MSCI.
US dollars

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Periodic Performance

	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months*	2.9	4.0	-1.1
YTD*	7.8	11.6	-3.9
1 Year*	20.7	24.9	-4.2
3 Years	11.3	7.7	3.6
5 Years	12.0	8.5	3.6
10 Years	12.9	9.9	2.9
Since Inception	12.3	9.0	3.3

Annualised periods ended 30 September 2021. *Not annualised.
Inception date: 31 August 2009.
Figures may not sum due to rounding.
Benchmark is MSCI Pacific Index.
Source: StatPro, MSCI.
euro

Discrete Performance

	30/09/16-30/09/17	30/09/17-30/09/18	30/09/19-30/09/19	30/09/19-30/09/20	30/09/20-30/09/21
Composite Net (%)	6.1	20.7	2.6	11.4	20.7
Benchmark (%)	8.9	10.4	4.6	-4.3	24.9

Benchmark is MSCI Pacific Index.
Source: StatPro, MSCI.
euro

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Periodic Performance

	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months*	3.0	4.1	-1.1
YTD*	3.5	7.2	-3.7
1 Year*	14.3	18.4	-4.0
3 Years	10.0	6.4	3.5
5 Years	11.9	8.3	3.5
10 Years	12.8	9.9	2.9
Since Inception	12.1	8.8	3.3

Annualised periods ended 30 September 2021. *Not annualised.
Inception date: 31 August 2009.
Figures may not sum due to rounding.
Benchmark is MSCI Pacific Index.
Source: StatPro, MSCI.
sterling

Discrete Performance

	30/09/16-30/09/17	30/09/17-30/09/18	30/09/19-30/09/19	30/09/19-30/09/20	30/09/20-30/09/21
Composite Net (%)	8.0	22.0	1.9	14.2	14.3
Benchmark (%)	10.9	11.6	3.8	-1.9	18.4

Benchmark is MSCI Pacific Index.
Source: StatPro, MSCI.
sterling

Performance Objective

+2% p.a. over 5 years, gross of fees vs benchmark.

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Periodic Performance

	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months*	2.9	4.0	-1.1
YTD*	1.5	5.1	-3.6
1 Year*	13.1	17.1	-4.0
3 Years	10.5	6.9	3.6
5 Years	11.9	8.4	3.5
10 Years	13.4	10.5	2.9
Since Inception	11.7	8.4	3.3

Annualised periods ended 30 September 2021. *Not annualised.
Inception date: 31 August 2009.
Figures may not sum due to rounding.
Benchmark is MSCI Pacific Index.
Source: StatPro, MSCI.
Canadian dollars

Discrete Performance

	30/09/16-30/09/17	30/09/17-30/09/18	30/09/19-30/09/19	30/09/19-30/09/20	30/09/20-30/09/21
Composite Net (%)	6.2	22.6	-1.4	20.9	13.1
Benchmark (%)	9.0	12.1	0.5	3.8	17.1

Benchmark is MSCI Pacific Index.
Source: StatPro, MSCI.
Canadian dollars

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Periodic Performance

	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months*	4.5	5.6	-1.1
YTD*	9.1	13.0	-3.9
1 Year*	18.3	22.5	-4.2
3 Years	11.3	7.7	3.6
5 Years	14.0	10.4	3.6
10 Years	14.6	11.6	3.0
Since Inception	11.8	8.5	3.3

Annualised periods ended 30 September 2021. *Not annualised.
Inception date: 31 August 2009.
Figures may not sum due to rounding.
Benchmark is MSCI Pacific Index.
Source: StatPro, MSCI.
Australian dollars

Discrete Performance

	30/09/16-30/09/17	30/09/17-30/09/18	30/09/19-30/09/19	30/09/19-30/09/20	30/09/20-30/09/21
Composite Net (%)	8.8	28.6	3.3	12.8	18.3
Benchmark (%)	11.7	17.7	5.3	-3.1	22.5

Benchmark is MSCI Pacific Index.
Source: StatPro, MSCI.
Australian dollars

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to 30 September 2021

Stock Name	Contribution (%)
Shimano	0.6
Recruit	0.4
MS&AD Insurance	0.3
Techtronic Industries	0.3
Misumi	0.3
Makita	0.3
Olympus	0.3
Washington Soul Pattinson	0.2
Murata	0.2
Fortescue Metals Group	0.2
Galaxy Entertainment Group	-0.7
Tsingtao Brewery 'H'	-0.6
Tencent	-0.5
SoftBank	-0.5
Shiseido	-0.3
Sony	-0.3
Cochlear	-0.3
CyberAgent	-0.3
Pigeon	-0.2
SEEK	-0.2

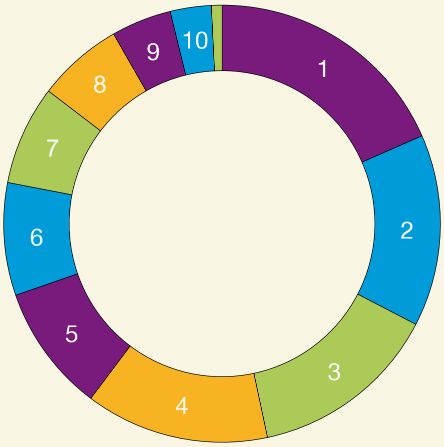
One Year to 30 September 2021

Stock Name	Contribution (%)
Washington Soul Pattinson	0.8
Shimano	0.7
James Hardie Industries	0.5
Techtronic Industries	0.5
Recruit	0.4
Jardine Matheson	0.4
SEEK	0.4
United Overseas Bank	0.3
Daiichi Sankyo Company	0.3
CSL	0.3
Pigeon	-1.3
Galaxy Entertainment Group	-0.8
Mesoblast	-0.7
SBI	-0.7
Tencent	-0.6
SoftBank Group	-0.6
Commonwealth Bank of Australia	-0.6
Olympus	-0.5
Sugi	-0.4
Tsingtao Brewery 'H'	-0.4

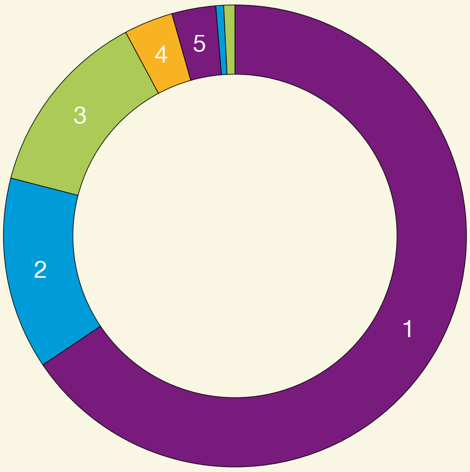
Source: StatPro, MSCI. Developed Asia inc Japan composite relative to MSCI Pacific Index.
Some stocks may have only been held for part of the period.

Top Ten Largest Holdings

Stock Name	Description of Business	% of Portfolio
Baillie Gifford Japanese Smaller Cos Fund	Japanese smaller companies investment fund	7.4
Shimano	Cycling component manufacturer	3.9
Olympus	Optoelectronic products	3.6
SMC	Producer of factory automation equipment	3.6
Hong Kong Exchanges & Clearing	Stock exchange operator	3.6
Shiseido	Japanese cosmetics manufacturer	3.6
Recruit Holdings	Property, lifestyle and HR media	3.5
SoftBank Group	Telecom operator and technology investor	3.3
WHSP	Investment holding company	3.0
Techtronic Industries	Power tool manufacturer	2.9
Total		38.7



Sector Weights		(%)
1	Industrials	18.4
2	Communication Services	14.2
3	Financials	14.0
4	Consumer Staples	13.6
5	Consumer Discretionary	9.4
6	Health Care	8.3
7	Baillie Gifford Pooled Funds	7.4
8	Information Technology	6.3
9	Materials	4.5
10	Energy	3.0
11	Cash	0.8



Geographical Location Weights		(%)
1	Japan	65.6
2	Australia	13.5
3	Hong Kong	13.1
4	Singapore	3.4
5	New Zealand	3.1
6	Thailand	0.5
7	Cash	0.8

Totals may not sum due to rounding.

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	4	Companies	1	Companies	None
Resolutions	32	Resolutions	1	Resolutions	None

Solving climate change will require both international agreements among nations, and the innovation and entrepreneurship of businesses

As responsible stewards of long-term capital, it is increasingly important we understand the risks and opportunities of climate change on our clients' behalf

We try to ensure that our engagement with companies on climate-related issues is based on material risks and opportunities, but is also supportive through significant periods of change

Company Engagement

Engagement Type	Company
Corporate Governance	Ryman Healthcare Limited
Environmental/Social	United Overseas Bank Limited
AGM or EGM Proposals	Galaxy Entertainment Group Limited, Ryman Healthcare Limited, Xero Limited, freee K.K.

Notes on company engagements highlighted in blue can be found in this report. Notes on other company engagements are available on request.

Navigating the challenge of climate change

The job of editing a document with many different authors can be a thankless task. As anyone who has ever found themselves lost in a sea of tracked changes and comments will know, reaching agreement on the final version usually requires both compromise and tenacity. So we should spare a thought for the 721 authors from 90 countries asked by the Intergovernmental Panel on Climate Change (IPCC) to finalise its Sixth Assessment Report. For them, 9 August was a very big day indeed. The full 3,949 pages of Working Group I's contribution was published for the world to see, representing the most significant update to global understanding of the physical science of climate change. It has taken a full eight years to complete.

We are no strangers to long-term, diligent research and analysis ourselves. We certainly try to avoid reaching hasty conclusions based on limited inputs or unreliable data. So, the fact that this report – itself based on thousands of separate scientific studies – should use such clear and unambiguous language in its descriptions of the changes we are now causing to our planet should give everyone reason for concern. The IPCC is certainly not prone to knee-jerk reactions. These are careful and considered conclusions and they tell us that human-induced climate change is unequivocal and getting worse.

Barely a month earlier, the small village of Lytton in southern British Columbia, home to roughly 250 people, measured the highest temperature ever recorded in Canada. Temperature records are normally broken by fractions of a degree but this time it was smashed by 4.6°C, reaching nearly 50°C. The next day, 90 per cent of the village's homes and businesses were destroyed by fire. Stories like this are being repeated around the world on an increasingly frequent basis, providing a very human reality to the thousands of pages of IPCC research and analysis.

Climate change is, of course, a global problem but the 'lived experience' of it happens locally. It is both a glaringly urgent emergency and something that requires action over decades. Its causes and effects are unevenly distributed through time and geography, with those most responsible often the least exposed to its physical and economic impacts. It requires international agreements among nations to address, yet it also needs innovation and entrepreneurship from businesses to solve. And even understanding the science of it, as we have seen, needs the diligent work of thousands of researchers. It is complex and at times confounding, to say the least.

Our responsibility as stewards of long-term capital is, we think, twofold. First, we need to understand how climate change can affect returns for our clients. For now, the focus of much of the regulatory intervention we are seeing in this area is on risk, including the recent announcements by the UK's Department for Work and Pensions and Financial Conduct Authority. The Taskforce for Climate-related Financial Disclosures (TCFD) – which forms the bedrock of this sort of regulation – has been hugely influential here and has changed the game on corporate climate risk disclosure.

The TCFD's emphasis was, and continues to be, primarily on driving better disclosure of potential financial costs of climate change and the transition. Financial costs don't, of course, tend to include the human cost of lives uprooted or even sadly lost. Even so, the bill for rebuilding the little village of Lytton, B.C., currently stands at CAD$78m and rising. Costs like this multiplied across the globe quickly become systemic. This is something that even the world's best financial data modellers currently find difficult to comprehend, let alone calculate.

Conventional economic modelling can struggle to incorporate the type of unprecedented impacts that climate change might bring – like large scale crop failure, global sea level rise and the collapse of ecosystems. Conversely, losses to fossil fuel-based business models in a decarbonising world are much easier to calculate. And so, as we begin incorporating climate scenario analysis into our own portfolio analysis, we are mindful that some model outputs have a tendency to show the financial downsides of the transition apparently exceeding the financial downsides of severe climate change. This instinctively feels wrong, and it probably is.

But even more importantly for the type of long-term, future-focused investment strategies we run at Baillie Gifford, there is a danger that the opportunities presented by the shift to net-zero emissions may also be underestimated. Our responsibility to our clients is to find these opportunities. Ultimately, we think risk as a theory of change has its limitations and will not drive the scale of capital the world needs into climate solutions fast enough. The financial industry must do far more than simply insulate itself from risk: it must seek to achieve better outcomes for the climate, and by extension all of us.

Which brings us to our other core responsibility, which is to be supportive and constructive long-term owners of companies as they navigate the transition towards net zero. All companies will need to get there eventually; for some it presents a near-term liability or opportunity, or both, while for others it is less material to their core business, though still a feature of the regulatory space and customer environment they operate in. We try to ensure that our engagement with companies on climate-related issues is based on material risks and opportunities but is also supportive through significant periods of change.

For companies to drive this transition effectively, the role of governments in helping to set the goalposts and rules of the game is vital. The Paris Agreement of 2015 was a huge step forward in this respect, but as we look to COP26 in Glasgow in November we are hopeful that we will see more detail emerge on the regulatory and fiscal frameworks that are required. Put simply, the sheer speed of change now required to have much hope of staying within the 1.5°–2°C limits agreed in Paris means significant policy intervention is now needed in many areas like heating, power, transport, and agriculture.

Our view is that this intervention should be aimed at ensuring rapid adoption of solutions that can make a transformational difference now, on top of whatever economy-wide changes need to be made in the longer term. Clean technologies need to reach cost parity with fossil fuels as quickly as possible, meaning that targeted sector-specific policies and innovation are vital. Norway provides a good example, where pure electric vehicles now make up over two-thirds of new car sales, thanks to incentives that made them attractive to buyers and ensured the required infrastructure was built out too. Countries where adoption is left purely to market forces may eventually get to the same place, but it will take a lot longer – too long for the kinds of emissions reductions we need to see to be on track for the Paris Agreement.

Putting more detail on the speed of those emissions reductions will be keeping the 721 IPCC authors busy over the coming year as they prepare two further Working Group reports on the mitigation and impacts of climate change. They are then due to publish a synthesis report around this time next year. Meanwhile, it will become increasingly important for investors and companies alike to ensure they both understand the risks – and importantly the opportunities – of climate change to give us the best chance of avoiding too many more Lyttons in the future.

Company	Engagement Report
United Overseas Bank Limited	We engaged with UOB as it sets out its new and comprehensive sustainability strategy. The company invited Baillie Gifford to join a sustainability strategy seminar where members of the management team addressed climate change transition as both a business risk and opportunity. We are supportive of UOB's increased focus on the materiality of climate change to its long-term business success.

Votes Cast in Favour

Companies	Voting Rationale
James Hardie Industries, Ryman Healthcare Ltd, Xero Ltd, freee K.K.	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
freee K.K.	AGM 29/09/21	7	We opposed the restricted share plan proposal as it included independent outside directors. We do not believe granting restricted stock with a three year holding period is appropriate for independent outside directors as it may compromise their independence.

Votes Abstained

We did not abstain on any resolutions during the period.

Votes Withheld

We did not withhold on any resolutions during the period.

There were no new purchases during the period.

Complete Sales

Stock Name	Transaction Rationale
Jardine Matheson	Jardine Matheson is an Asian holding company with assets spanning property, food and convenience retail and autos. The company had been a beneficiary of rising Asian/Chinese middle class, has good quality underlying business franchises and alignment from the Keswick family. The company has taken over the sister company, Jardine Strategic at a reasonable premium. With us having some ongoing concerns about capital allocation, long-term growth and the discount to NAV having closed we decided to sell the holding to fund new purchases.

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