BAILLIE GIFFORD

Japanese Smaller Companies Quarterly Update

30 September 2021

Contents

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Japan

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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

Japanese Smaller Companies is a regional equity strategy that aims to produce above average long-term performance through investment in Japanese equities with a market cap of between Y50-150bn in any economic sector. We believe the Japanese equity market offers active managers a broad selection of high quality companies capable of delivering attractive and sustainable earnings growth for shareholders.

Risk Analysis

Key Statistics	
Number of Holdings	71
Typical Number of Holdings	40-80
Active Share	95%*
Annual Turnover	13%

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

Japanese equities delivered a positive return during the quarter and outperformed most major markets as investors warmed to a change in leadership and an acceleration in vaccination rates

Continuing a theme from earlier in the year sentiment was negative towards high growth stocks, providing a challenging backdrop for the portfolio

We remain encouraged by the operational performance of the holdings and remain confident in their long-term growth prospects

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

Japan's annual cherry blossom creates a surreal spectacle. The fleeting nature of the sakura season in early spring symbolises the transience of life, of renewal and optimism; it also marks the start of a new school and university year in modern Japan; and has been celebrated for centuries with the cherished traditional custom of Hanami 'flower-viewing'. The annual record keeping of this ritual offers scientists an unusually long data set – and provides another illuminating clue to the impacts of climate change. Like others, it paints a grim picture for our planet: although the average peak bloom stayed relatively stable for a thousand years, it has begun to change, flowering a day earlier every decade since 1953; this year those in Kyoto peaked at their earliest in more than 1,200 years.

Japan of course, bears some responsibility. Fossil fuels account for over 80 per cent of the country's energy needs, resulting in over a billion tonnes of annual GHG (greenhouse gas) emissions – circa three per cent of the global rate – making it the sixth largest contributor to anthropogenic emissions. This regrettable position is a product of the country's high-speed economic growth; its natural resource poverty and lower renewable capacity (from mountainous terrain and steep shorelines), which results in a mere 12 per cent self-sufficiency rate – and a heavy reliance on expensive imported fossil fuels; and the Fukushima Daiichi Nuclear Disaster (before which, nuclear power provided for 30 per cent of the country's electricity; making it the world's third-largest nuclear-power generator).

The obvious economic incentive of self-sufficiency combined with the inescapably dire eventualities of global warming are, however, triggering change. Japan has committed to achieving zero emissions within 30 years. This ambitious ask is being supported by the government's 'Green Growth Strategy' which aims to spur private investment and innovation, by creating a positive and virtuous circle between economic growth and environmental protection: providing green projects, tax incentives and regulatory reform in 14 priority areas that promote the application and expansion of new renewables technologies. As a result, Japan expects 50 per cent of the nation's power supply to come from renewables by 2050 (from 18 per cent in 2020); 10 per cent of the supply-gap to be filled by restarting some of the nation's nuclear reactors; transitionary technologies like 'carbon capture, utilisation and storage' (CCUS) will be used with thermal power stations (thereby avoiding the wasteful abandonment of relatively young coal fleets) and will provide for 30 per cent; and the rest will come from green hydrogen and ammonia. These latter feedstocks will also contribute towards the decarbonisation of high-temperature industrial processes (like steel and cement production).

Corporates and consumers are already doing their part. The national 'Setsuden' movement ('saving electricity') – which encouraged the public to be more conscientious of their energy usage after the Tohoku earthquake – has had a long-lasting impact. Corporates have complemented this by making continuous improvements to technical efficiency, and by championing related technologies around the world such as hybrid electric vehicles, fuel-cell and related hydrogen technology, solar PV tech, smart grids, high speed trains and robotics. As a result, Japan is one of the most energy-efficient economies in the world. Companies such as Harmonic Drive Systems, Nabtesco and Torex Semiconductor are key drivers of this trend. Harmonic

Drive has spent over 50 years finessing the manufacture of speed reduction gears and other mechatronic products that are becoming increasingly key to driving mechanical efficiency gains in all types of devices that transmit motion, an impact permeating multiple end markets. Nabtesco is another manufacturer of motion control technology and is equally contributing to the proliferation of energy-saving automation. Finally, Torex semiconductor, a niche fabless manufacturer of analogue power management circuits is seeing increasing demand for its miniature, low-voltage devices – that require lower power consumption – in a whole host of new markets. The company is now pivoting away from consumer electronics towards higher margin auto and industrial applications. While the latter is not yet liquid enough for the portfolio it is certainly a candidate for future ownership as it grows and scales.

As selective stock pickers and long-term growth investors, we naturally gain greater exposure to forward-looking companies such as these that are more likely to embrace the inevitable impact of climate change within their growth prospects. Japan has provided rich pickings in this regard; more solar, fuel cell, and renewable technology patents in general have come from Japan over the last decade, then from any other country. This is readily observable within Japan's auto industry. Nifco and Daikyonishikawa, for example, are both addressing weight reduction in cars – an increasingly important issue given the heavy nature of EV batteries – through plastic substitution. The use of lighter yet stronger plastic parts in cars will lead to improved fuel efficiency, and range-gains in electric cars. As engines move from pure ICE to electric, heat considerations diminish and opportunities arise in, for example, battery spacers, but more broadly Nifco believes that this shift necessitates a fundamental re-examination of car content, which should be beneficial to them. Horiba, a manufacturer of measuring instruments has been helping auto manufacturers around the world satisfy new environmental standards, thanks to its monopolistic share of global exhaust emission analysers. This company has created the industry standard in emissions testing and is leveraging that strength to grow into new environmental testing opportunities.

Buildings are another huge source of GHG (greenhouse gas) emissions as a result of their ongoing operations. This issue could become increasingly problematic: urbanisation is expected to result in the doubling of the world's building stock by 2060, equivalent to adding another New York City every month for 40 years! The concentrated ownership structure of Japan's urban office and residential buildings, by a handful of major real estate companies, will hopefully make it easier for the country to implement technological improvements and effect widespread change. Katitas is at the forefront of this effort, as a specialist real-estate developer that buys and rejuvenates old, abandoned homes – renovating them with more energy efficient insulation and heating – before selling it on to mainly first-time buyers, avoiding the costly and energy-intensive process of rebuilding.
KH Neochem is another helping to address the problem by making specialist base chemicals (isononanoic acid and 2-ethylhexanoic acid) for refrigerant lubricants used in next-generation, environmentally-friendly compressors and air-conditioners. Although traditional refrigerants like CFCs (Chlorofluorocarbons) have been phased out globally due to their damaging environmental impact, their replacement, HCFC (Hydrochlorofluorocarbons) are still used in many products. While not as bad, these still contribute towards global warming and tend to persist in the atmosphere far longer than CFCs, and trap thousands of times as much heat in the atmosphere as carbon dioxide. NH Neochem makes the base chemicals that are used to create synthetic (HCFCs are petroleum-based) environmentally-friendly alternatives, that are beginning to be widely adopted. This shift should be a strong tailwind for the company, by virtue of being one of two players globally that make the raw materials needed.
One final entrepreneurial innovator in this space, is Enechange, a company riding the digitalisation and deregulatory wave hitting Japan's energy market. Enechange provides a demand/response service for households, facilitated by virtual power plants, allowing consumers to adjust their energy consumption in order to create additional supply at peak times. It is also gaining traction with energy suppliers for its Data business as these companies are keen to use customer data in terms of energy usage to improve their own efficiency and cut costs, as well as providing software for electric vehicle charging facilities.

Broadly speaking, Japanese companies appear to be embracing this 'green' growth opportunity. Japanese firms remain the largest supporting consortium of the Task Force on Climate-related Financial Disclosures (or 'TFCD'), a framework for disclosure on climate-related risks and opportunities. These recommendations help to provide a system that rewards companies that align their practices with the Paris agreement – effectively internalising climate-related externalities. The latest Japanese consortium member survey suggested that the percentage of companies that feel the benefits of TCFD approval and disclosure has increased, and that many are becoming aware of the need to evidence the consistency between materiality judgement and business strategy/

management activities beyond basic formalistic disclosures.

While Japan's corporate governance and stewardship codes were initially focused primarily on corporate governance reform, we note the speed with which the governance community in Japan has seized the environmental, social and governance (ESG) agenda as a natural fit with improving the overall quality of corporates. In the past year, we have seen more companies disclosing in line with the recommendations of the TCFD and committing to targets for reducing GHG emissions. Given the nature of climate change as a problem of distributed agency, Japanese companies' general predisposition to take collective responsibility is a real asset. We believe there is scope for Japan to take a global lead on best practices in disclosure, authentic target-setting, and long-term minded actions that address global challenges rather than leaving them for future generations. Although we recognise that some of the TCFD-related guidance and methodology on areas like scenario analysis and risk metrics is still developing, we expect to see further evolution and refinement of the TCFD framework in future years as it becomes increasingly integrated into company reporting requirements and regulations.

As this situation evolves, so too, will our approach. Environmental considerations are becoming an increasingly important element of our research, and various climate audits are currently being explored – in the hope of enhancing our awareness of how our companies are responding to this threat, and to better highlight those that warrant further research and engagement. At the same time, at the individual stock level we will endeavour to explore what commitments the holdings have made and what steps they are taking to contribute to Japan's journey towards net zero, factoring it into the overall growth thesis.

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 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*	1.5	3.5	-2.0
YTD*	-4.5	6.3	-10.8
1 Year*	5.3	14.8	-9.5
3 Years	6.0	5.0	1.0
5 Years	13.4	8.2	5.1
10 Years	15.7	9.0	6.8
15 Years	8.4	5.4	3.1
20 Years	9.9	8.0	1.9
Since Inception	6.3	3.0	3.3

Annualised periods ended 30 September 2021. *Not annualised.
Inception date: 31 December 1989.
Figures may not sum due to rounding.
Benchmark is MSCI Japan Small Cap Index (Market cap weighted composite index of TOPIX 2nd Section, TOPIX Small & Jasdaq prior to 30 April 2010).
Source: StatPro, MSCI, Tokyo Stock Exchange.
US dollars

Discrete Performance

	30/09/16-30/09/17	30/09/17-30/09/18	30/09/18-30/09/19	30/09/19-30/09/20	30/09/20-30/09/21
Composite Net (%)	21.0	29.8	-12.2	28.9	5.3
Benchmark (%)	19.1	7.7	-5.8	7.0	14.8

Benchmark is MSCI Japan Small Cap Index
Source: StatPro, MSCI.
US dollars

Performance Objective

2%+ p.a. over 5 years vs benchmark.

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Periodic Performance

	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months*	3.9	6.0	-2.1
YTD*	0.8	12.2	-11.4
1 Year*	6.6	16.2	-9.6
3 Years	6.1	5.1	1.0
5 Years	12.7	7.6	5.1
10 Years	17.5	10.6	6.9
15 Years	9.1	6.0	3.1
20 Years	8.6	6.7	1.9
Since Inception	6.2	3.0	3.3

Annualised periods ended 30 September 2021. *Not annualised.
Inception date: 31 December 1989.
Figures may not sum due to rounding.
Benchmark is MSCI Japan Small Cap Index (Market cap weighted composite index of TOPIX 2nd Section, TOPIX Small & Jasdaq prior to 30 April 2010).
Source: StatPro, MSCI, Tokyo Stock Exchange.
euro

Discrete Performance

	30/09/16-30/09/17	30/09/17-30/09/18	30/09/18-30/09/19	30/09/19-30/09/20	30/09/20-30/09/21
Composite Net (%)	15.0	32.1	-6.4	19.8	6.6
Benchmark (%)	13.2	9.6	0.4	-0.6	16.2

Benchmark is MSCI Japan Small Cap Index.
Source: StatPro, MSCI.
euro

Performance Objective

2%+ p.a. over 5 years vs benchmark.

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Periodic Performance

	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months*	4.0	6.1	-2.1
YTD*	-3.2	7.7	-10.9
1 Year*	1.0	10.1	-9.1
3 Years	4.9	3.8	1.0
5 Years	12.5	7.4	5.1
10 Years	17.4	10.5	6.9
15 Years	10.8	7.7	3.1
20 Years	10.4	8.5	1.9
Since Inception	6.9	3.6	3.3

Annualised periods ended 30 September 2021. *Not annualised.
Inception date: 31 December 1989.
Figures may not sum due to rounding.
Benchmark is MSCI Japan Small Cap Index (Market cap weighted composite index of TOPIX 2nd Section, TOPIX Small & Jasdaq prior to 30 April 2010).
Source: StatPro, MSCI, Tokyo Stock Exchange.
sterling

Discrete Performance

	30/09/16-30/09/17	30/09/17-30/09/18	30/09/18-30/09/19	30/09/19-30/09/20	30/09/20-30/09/21
Composite Net (%)	17.1	33.6	-7.1	22.9	1.0
Benchmark (%)	15.3	10.8	-0.3	2.0	10.1

Benchmark is MSCI Japan Small Cap Index.
Source: StatPro, MSCI.
sterling

Performance Objective

2%+ p.a. over 5 years vs benchmark.

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Periodic Performance

	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months*	3.9	5.9	-2.1
YTD*	-5.0	5.7	-10.7
1 Year*	-0.1	8.9	-9.0
3 Years	5.3	4.3	1.0
5 Years	12.5	7.4	5.1
10 Years	18.0	11.1	6.9
15 Years	9.4	6.3	3.1
20 Years	8.7	6.8	1.9
Since Inception	6.6	3.3	3.3

Annualised periods ended 30 September 2021. *Not annualised.
Inception date: 31 December 1989.
Figures may not sum due to rounding.
Benchmark is MSCI Japan Small Cap Index (Market cap weighted composite index of TOPIX 2nd Section, TOPIX Small & Jasdaq prior to 30 April 2010).
Source: StatPro, MSCI, Tokyo Stock Exchange.
Canadian dollars

Discrete Performance

	30/09/16-30/09/17	30/09/17-30/09/18	30/09/18-30/09/19	30/09/19-30/09/20	30/09/20-30/09/21
Composite Net (%)	15.1	34.2	-10.0	30.0	-0.1
Benchmark (%)	13.3	11.3	-3.5	7.9	8.9

Benchmark is MSCI Japan Small Cap Index.
Source: StatPro, MSCI.
Canadian dollars

Performance Objective

2%+ p.a. over 5 years 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*	5.5	7.6	-2.1
YTD*	2.0	13.5	-11.5
1 Year*	4.5	14.0	-9.4
3 Years	6.1	5.1	1.0
5 Years	14.7	9.5	5.2
10 Years	19.2	12.2	7.0
15 Years	8.7	5.6	3.1
20 Years	7.8	6.0	1.8
Since Inception	6.6	3.3	3.3

Annualised periods ended 30 September 2021. *Not annualised.
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Figures may not sum due to rounding.
Benchmark is MSCI Japan Small Cap Index (Market cap weighted composite index of TOPIX 2nd Section, TOPIX Small & Jasdaq prior to 30 April 2010).
Source: StatPro, MSCI, Tokyo Stock Exchange.
Australian dollars

Discrete Performance

	30/09/16-30/09/17	30/09/17-30/09/18	30/09/18-30/09/19	30/09/19-30/09/20	30/09/20-30/09/21
Composite Net (%)	18.0	40.8	-5.8	21.3	4.5
Benchmark (%)	16.1	16.8	1.1	0.6	14.0

Benchmark is MSCI Japan Small Cap 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 (%)
Jeol	0.7
Descente	0.4
Katitas	0.4
Open Door	0.3
Snow Peak	0.3
Technopro	0.3
Nihon M&A Center	0.2
Cosmos Pharmaceutical	0.2
Brainpad	0.2
KH Neochem	0.2
GA technologies	-1.1
Bengo4.Com	-0.6
Wealthnavi	-0.4
Peptidream	-0.3
Locondo	-0.3
Mitsui Osk Lines	-0.2
Nifco Inc	-0.2
IRISO Electronics	-0.2
Harmonic Drive Systems	-0.2
BAYCURRENT CONSULTING	-0.2

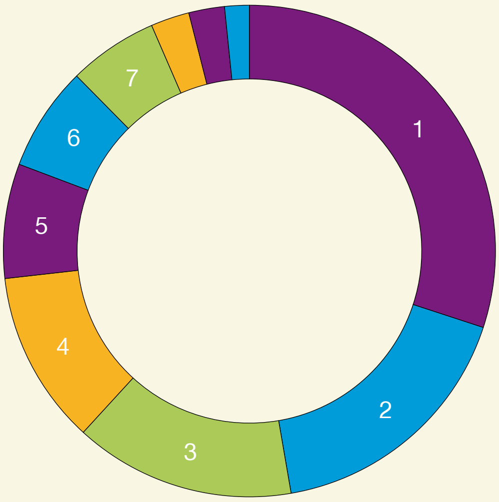
One Year to 30 September 2021

Stock Name	Contribution (%)
Jeol	1.8
Outsourcing	1.4
Descente	1.1
Wealthnavi	0.7
Open Door	0.7
Raksul	0.6
Noritsu Koki	0.4
Snow Peak	0.3
Freakout	0.3
Technopro	0.3
GA technologies	-1.9
Demae-Can	-1.6
Bengo4.Com	-1.1
Locondo	-1.0
Uzabase	-1.0
Harmonic Drive Systems	-0.7
Kitanotatsujin	-0.6
Cybozu	-0.6
Mitsui Osk Lines	-0.6
Anicom	-0.6

Source: StatPro, MSCI. Japanese Smaller Companies composite relative to MSCI Japan Small Cap Index.
Some stocks may have only been held for part of the period.

Top Ten Holdings

Stock Name	Description of Business	% of Portfolio
Jeol	Manufacturer of scientific equipment	4.1
RakSul	Internet based services	4.1
Outsourcing	Employment placement services	3.5
Tsugami	Manufacturer of automated machine tools	2.8
GMO Payment Gateway	Online payment processing	2.7
Nihon M&A	M&A advisory services	2.7
Descente	Manufactures athletic clothing	2.6
KATITAS	Real estate services	2.3
Infomart	Online platform for restaurant supplies	2.3
MonotaRO	Online business supplies	2.3
Total		29.4



Sector Weights

	Sector Weights	(%)
1	Industrials	30.0
2	Information Technology	17.3
3	Consumer Discretionary	14.5
4	Health Care	11.4
5	Financials	7.5
6	Consumer Staples	6.9
7	Communication Services	5.9
8	Materials	2.5
9	Real Estate	2.3
10	Cash	1.6

Figures may not sum due to rounding.

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	8	Companies	None	Companies	1
Resolutions	71	Resolutions	None	Resolutions	1

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
Environmental/Social	Sato Holdings Corporation
AGM or EGM Proposals	gumi Inc.

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 (WGI) 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 kneejerk 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.

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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 (DWP) 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
Sato Holdings Corporation	Sato Holdings is a manufacturer of labelling products and supply chain management solutions. A member of the ESG Team and a fund manager met with CEO Kotaki-san to discuss a range of ESG-related topics. Sato present themselves as a dynamic workplace where every employee is encouraged to experiment and not be afraid of failure. In this context, it was interesting to hear that around 70 per cent of employees take part in the share purchase scheme. However, we believe some aspects of Sato's employee engagement, such as encouraging employees to quit smoking, detract attention from more material areas such as work life balance and career development. We discussed this with Kotaki-san, as well as broader points around Sato's culture and approach to long-term strategy.

Votes Cast in Favour

Companies	Voting Rationale
Asahi Intecc Co Ltd, Brainpad, Cosmos Pharmaceutical, Gumi Inc, Istyle, Sho-Bond Holdings Ltd, Technopro Holdings, Weathernews Inc	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

We did not vote against any resolutions during the period.

Votes Abstained

Companies	Voting Rationale
Cosmos Pharmaceutical	We abstained on the low dividend payment as we believe the company's capital strategy is not in the interests of shareholders.

Votes Withheld

We did not withhold on any resolutions during the period.

New Purchases

Stock Name	Transaction Rationale
ENECHANGE Ltd.	Enechange is a young, disruptive, and rapidly growing company founded in 2015 by the current CEO Yohei Shiroguchi. He started this business whilst reading for a PhD at Cambridge University. Enechange operates two distinct businesses: "Platform" and "Data". The Platform business is an online service allowing individuals & businesses to switch their energy providers easily. Enechange takes a commission for each successful switch and a small percentage of the monthly energy bill on a recurring basis. The Data business involves Enechange selling a SaaS package to energy companies that allows them to monitor, analyse, and manage their energy distribution infrastructure in real-time. Following deregulation in 2016, the Japanese energy market has seen a huge influx of smaller, independent power providers, offering competitive energy tariffs. This has encouraged a significant increase in customers switching to the best deals. The number of such switches still remains quite small, thereby offering Enechange a large growth opportunity. It is also gaining traction with energy suppliers for its Data business as these companies are keen to use customer data in terms of energy usage to improve their own efficiency and cut costs. Enechange is the only such provider of both the platform and the data business and is building a strong competitive position. Given these attractions, we decided to take a small holding. Mkt Cap ¥49bn, PE 210x, PB 47x, Yield n/a.

Complete Sales

Stock Name	Transaction Rationale
H.I.S.	H.I.S is Japan's leading outbound travel agency that also operates theme parks and hotels. As one would expect, all of its businesses have been severely impacted by the pandemic, with a complete collapse in sales and profits. On a more longer-term view, we remain concerned that the business model is under structural pressure from consumers acting independently using the internet to arrange their travel needs. The shares have staged a strong bounce following the steady relaxation of travel restrictions in Japan and some overseas markets. However, we remain concerned about the company's long-term competitive position so we decided to sell our entire holding.

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