
SHIN NIPPON SEEING BROAD PORTFOLIO STRENGTH

Praveen Kumar, portfolio manager, explains how a tight employment market and developments in healthcare are driving stock selection in the Shin Nippon portfolio. He also outlines some of the areas that contributed significantly to the performance over the past 12 months, as well as those which offer exciting prospects for the future.

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Alex Blake (AB): Hello. I'm joined today by Praveen Kumar, portfolio manager of Baillie Gifford Shin Nippon. Welcome, Praveen.

Praveen Kumar (PK): Hi, Alex.

(AB): Japan's labour shortage is well publicised. Is this having an impact on the portfolio?

(PK): Yes, very much so. There is incredible ongoing tightness in the Japanese labour market. At the headline level, there are about one and a half jobs for every person in Japan at the moment, but if you dig down into specific sectors, the labour shortage figures are actually quite alarming.

Just to give you an example, in the education sector, there are apparently seven jobs for each person, if you're applying for the role of a qualified, experienced primary school teacher.

So overall, the market remains very, very tight, as far as labour is concerned, and we do have roughly about 10% of the portfolio invested in this theme. In fact, the top performing stock last year was a company called Outsourcing that plays directly to this theme, so yes, this is an area that remains very interesting for us, and we hope to find more ideas within this space.



(AB): And it sounds like the domestic market is supportive to Japanese smaller companies. Are they also seeing demand from overseas?

(PK): They are. In terms of overseas demand, there are three broad categories which are generating quite strong levels of orders for Japanese manufacturers.

The first is quite well known robotics factory automation that still remains quite a long-term structural, secular theme.

China is obviously a big, big driver of demand for robotics-related services and products, and there doesn't seem to be any slowdown in that part of the market.

Then, we're also seeing very, very strong demand from semiconductors, for instance, so themes like Internet of Things, you know, devices connected to each other, so all these are driving really strong order flow for a number of Japanese companies.

Then, finally, we have auto electrification; so as EVs (electric vehicles) and hybrids take more and more share of the overall car market, these vehicles seem to have a lot more electronics in them, so there's strong demand for companies making sensors, for instance. So overall, the overseas demand outlook also remains quite favourable for a number of Japanese companies.

(AB): Another area you've talked about in the past is healthcare. Are you seeing opportunities in that sector?

(PK): Yes, so at the moment, we have about 20% of the portfolio invested in healthcare-related names, and this is an area where I'm spending a bit more time relative to others, because I think it could be quite exciting from a long-term perspective.

And within healthcare, there have been a lot of regulatory changes. There have been a lot of changes at the corporate level, which has meant that the environment for companies like early-stage biotechs or medical devices has improved considerably.

In fact, one of the top 10 performers last year was a biotech company called SanBio, which is developing a stem cells based therapy.

Yes, again, with an ageing population, you would expect the healthcare sector to actually provide a fertile hunting ground for ideas, and that remains an area of interest for me.

(AB): Great. It's been another strong year for the company, and you've mentioned a couple of the top

contributors to performance already. Are there any stocks that have contributed to performance in a big way?

(PK): Yes, so as you say, last year was a very, very strong year in terms of performance, but what's even more heartening is just the spread of stocks and sectors from where this performance has come from. So we've already touched on Outsourcing, which is a play on labour shortage, and SanBio, a biotech company.

Again, a couple of the stocks related to robotics, for instance, were big, big performers. Then, our traditional favourite hunting ground of online disruptive businesses, Yume No Machi, which is an online takeaway operator that was the second largest contributor to performance.

So overall, it's quite pleasing to see just the sheer breadth of stocks and sectors that have done exceptionally well. And we had around eight to 10 stocks that more than doubled in the last year, so yes, that's the more pleasing aspect of performance.

(AB): Pleasing to note that some of the longer-term holdings are performing well. Have you made any new investments recently?

(PK): Yes, so we have bought a few new stocks, I'd like to highlight a couple of them. The first one is Katitas, which IPO'd in December last year, and we actually participated in the IPO. It is a quite an interesting business, where it buys old, abandoned houses where no-one lives, and they're over 30 years old, renovates them to a very high standard, and sells them at a very affordable price to first-time buyers.

There is a big, big problem in Japan as a result of demographics and urban migration. They've got roughly around eight million empty houses, and that's proving a big problem for the authorities.

Katitas is actually trying to address that problem by renovating and encouraging second-hand home ownership, which is quite low in Japan, so that was quite an interesting story.

The other one I'd like to highlight is a very small company called Locondo, so it sells shoes online, so a bit like Zalando here in Europe. And shoes, again, has been a category that people have found very difficult to crack because of very high return rates.

But Locondo has developed a system which has managed to reduce return rates to an incredibly low level, then it's growing really rapidly at 30% plus, so that's again, another business, more traditional online, disruptive-type



play with the very long growth run rate that we invested in.

(AB): Sounds like some interesting opportunities for the future. Praveen, thanks very much for joining us.

(PK): Thanks, Alex.

Standardised Past Performance (%)

	31/03/2013 – 31/03/2014	31/03/2014 – 31/03/2015	31/03/2015 – 31/03/2016	31/03/2016 – 31/03/2017	31/03/2017 – 31/03/2018
Baillie Gifford Shin Nippon PLC	12.4	20.3	41.8	28.6	43.9
MSCI Japan Small Cap Index	-2.8	25.2	7.8	34.5	12.2

Performance source: Morningstar and relevant underlying index provider(s), share price, total return.

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