
JAPANESE INCOME GROWTH FUND – MANAGER UPDATE

Karen See, joint manager of the Japanese Income Growth Fund, discusses the fund since its inception three years ago, and some key characteristics of the portfolio.

The value of an investment in the fund, and any income from it, can fall as well as rise and investors may not get back the amount invested.

This film was produced and approved in September 2019 and has not been updated subsequently. It represents views held at the time of recording and may not reflect current thinking.

Karen See (KS): We launched the Japanese Income Growth Fund three years ago, to offer clients a fund with a slightly different growth profile and to take advantage of the changing corporate governance landscape in Japan. This is still a growth strategy, but we aim to yield more than the market at the portfolio level. The fund has grown steadily since inception, and it now has assets of around £600 million.

The Japanese Income Growth Fund is really an extension of what we already do on the Japanese equities team. We have a very well-resourced team of nine investors, and a long, successful track record in picking growth stocks.

What we're doing with the Japanese Income Growth Fund is to tackle the income growth opportunity through the lens of a growth investor. We look for companies that can grow their earnings over the long run. This will then translate into dividend growth over time.

We don't want to or need to sacrifice growth for income because there's plenty of opportunity in the Japanese market to do both. Around ¥250 trillion of cash on corporate balance sheets, with over half of the listed companies in the net cash position.

What this means is that Japanese corporates are able to pay out dividends not only from earnings that year, but also from the cash pile. Indeed, we saw that despite net profits of TOPIX falling by 3 per cent last year, dividends increased by more than 10 per cent. We don't find this anywhere else.

Corporate governance reform goes beyond just paying out more in dividends and doing more share buybacks. It's about fundamentally changing the way management think about their capital allocation decisions. This will have more significant impact to Japanese companies' operational performances in the long run.

Our investment horizon is typically three to five years so the performance since inception is still over a shorter time period than we would like, but it's performing on track so far.

The biggest performance contributors are all growth stocks rather than income names. Picking the right growth names remains a crucial way for us to add value for our clients. Income makes up a bigger portion of total returns in this fund than other pure growth strategies which is an important characteristic as we



expect dividends to be more resilient in tougher conditions, especially given how cashed up companies are in Japan.

We believe the Japanese Income Growth Fund offers our investors a blend of growth that's uniquely available in Japan.

Annual Past Performance to 30 June Each Year (%)

	2015	2016	2017	2018	2019
Baillie Gifford Japanese Income Growth Fund Inc	-	-	-	17.5	0.7
TSE TOPIX TR	18.4	9.5	24.2	9.5	-2.1
TSE TOPIX +1%	19.6	10.6	25.5	10.6	-1.2

Source: FE, Total return in sterling

Past performance is not a guide to future returns

The Baillie Gifford Japanese Income Growth Fund was launched on 4 July 2016. Past performance is only available from this date. The manager believes this is an appropriate benchmark given the investment policy of the fund and the approach taken by the manager when investing.

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The views expressed are those of the speaker and should not be considered as advice or a recommendation to buy, sell or hold a particular investment. They reflect personal opinion and should not be taken as statements of fact nor should any reliance be placed on them when making investment decisions.

The fund has exposure to foreign currencies and changes in the rates of exchange will cause the value of any investment to fall as well as rise.

The fund's exposure to a single market and currency may increase share price movements.

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All portfolio data to 30 June 2019 unless otherwise stated.

