
JAPANESE EQUITIES INTRODUCTION

Members of the Japanese Equities Team explain the philosophy and processes of the strategies that exist within Baillie Gifford's Japanese Equities capabilities.

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Andrew Brown: Hello. My name is Andy Brown and I oversee our Japanese Equities client service. At Baillie Gifford we have been investing in Japanese companies since the 1960s and we launched our first specialist Japanese Equities strategy, The Japan Investment Trust, in 1981. As things stand today, we manage around \$13 billion in Japanese equities on behalf of clients all over the world.

We benefit from a well-resourced and experienced team of nine investors, supported by two investment specialists, of which I am one of. Additional insight is also provided by investors in other teams within the firm as well as two Japan-based researchers.

In common with other equity teams at Baillie Gifford, we have a very distinctive style. We take a long-term view, we run bottom up, high conviction portfolios and we adopt a growth bias. We are pragmatic about where that growth comes from but what we do insist is that companies are run by able management teams and they have opportunity to delivery significant upside for our clients.

Within our Japanese Equities capabilities, we run a variety of different strategies. This includes Japan Small Cap, two broad market best ideas strategies and a Japan Income Growth strategy. I'm now going to hand over to members of the investment team to talk about each of these in turn.

Small Cap

Jared Anderson: I'm Jared Anderson, an investment manager on the Japanese Equities team at Baillie Gifford with a focus on smaller companies. So, the remit of the Baillie Gifford Japanese Smaller Companies strategy is a simple one. We are looking for the most interesting smaller companies in Japan and we want to own chunks of these companies for long periods of time. These are businesses that are capable of meaningfully growing their revenues, profits and cashflows over the long term.

In practice, we define smaller businesses as those with a market capitalisation below \$1.5 billion. This means that for the most part, the businesses we invest in at initial purchase are at an early stage in bringing a product or service to market and are facing up a long, albeit uncertain, growth runway.



Typically, we look for businesses that are trying to solve big problems, with real ambition; often led by entrepreneurial founders, and where there are formative signs of an enduring competitive position. These are companies that are often overlooked by others on the rather arbitrary grounds of size.

Finally, we want the possibilities and probabilities to be in our favour. We're looking for businesses that might well look very different in five or 10 years' time. Different in ways we likely can't fully comprehend. And of course, this works both ways. But, from consumer-facing platforms, to enterprise software to healthcare, we think we are backing businesses that are on the right side of change.

Growth

Tolibjon Tursunov: Hello, my name is Tolibjon and I am a member of the Japanese Investment Team at Baillie Gifford and a co-manager of the Japan Growth Fund.

The Growth Fund is a best ideas strategy that invests in companies above \$2 billion market cap at the time of our purchase. The aim of the fund is to invest in companies that aspire to transform the industries in which they operate. Often these companies will have developed an exceptional product or a service and are led by able management teams. To find these companies, we look to hear from their customers, we attend trade shows, and we speak to industry experts. This is what we refer to as the 'discovery step'.

Next is the 'research step' and here we are looking for traits that might help these companies first achieve their aspirations, and then help sustain their competitiveness for long periods of time. We then assess the potential size of the revenue opportunity available to these companies. In doing so, we recognise that initial success can breed even greater ambitions in these companies, which is why rather than a precise figure, we look to build a potential range of outcomes for these companies. We recognise that strong stewardship can help create shareholder value, not only protect it. This is why we spend a considerable amount of time trying to understand management's vision, their aspirations, and alignment with the other shareholders.

We then assess how we differ from the market. How much of what we have found out about the growth potential is reflected in the share price today? Here, we are looking to sketch the financial profile of a company in five to 10 years' time. Contrast this with being obsessed with spot multiples, or Bollinger Bands.

The final step in our process is the 'decision step' where Donald, the other co-manager in the fund and I take full accountability for every decision made in the portfolio.

Income Growth

Karen See: Hi. My name is Karen See, I am an investment manager within the Japanese team and co-manager of the Japan Income Growth strategy.

Japan Income Growth is a strategy we launched 4 years ago to capture opportunities emerging from an improving corporate governance landscape in Japan.

The strategy is an extension of what we already do; albeit there is an additional emphasis on targeting an above market yield. Essentially, what we are doing is tackling the income growth opportunity through the lens of a growth investor. By looking for companies that can grow their earnings over the long run this should translate into dividend growth over time.

By focusing on businesses which are cash generative and benefit from strong balance sheets, we don't need to sacrifice growth for income.



Why is there an opportunity for income growth in Japan? Japanese companies benefit from superior balance sheet strength in comparison to companies listed elsewhere. This means that corporates are able to pay out dividends not only from earnings but also from their cash pile. Indeed, we have seen that despite sharply falling net profits recently, dividends in Japan have proven more resilient than elsewhere.

We also believe that corporate governance reform will underpin a secular rise in shareholder payouts. The changes we are seeing go far beyond this, however. What gets us really excited is that we are seeing a fundamental change in the way that management think about their capital allocation decisions, which could have a significant impact on the operational performance of Japanese companies over the longer term.

Andrew Brown: Thank you very much for watching. If you would like to find out more, please have a look through the site and you'll find details of our philosophy and process, examples of thought pieces we've written, and some intellectual capital we've produced for our clients.

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