
THE BAILLIE GIFFORD JAPAN TRUST MANAGER UPDATE

Client Director Alex Blake talks to lead manager of The Baillie Gifford Japan Trust Matthew Brett about the past year, the current positioning of the portfolio and opportunities ahead.

The value of your investment and any income from it is not guaranteed and may go down as well as up and as a result your capital may be at risk.

This film was produced and approved in November 2020 and has not been updated subsequently. It represents views held at the time of recording and may not reflect current thinking.

For a Key Information Document for The Baillie Gifford Japan Trust PLC, please visit our website at www.bailliegifford.com

Alex Blake (AB): Hello, I'm Alex Blake. I'm joined today by Matthew Brett, the lead manager of The Baillie Gifford Japan Trust. Welcome, Matthew.

Matthew Brett (MB): Hi, Alex.

AB: Japan Trust recently released its final results. How was the last year?

MB: Obviously it's been quite a strange and difficult year for the world with the coronavirus pandemic. The good news from a Japan perspective is that Japan has been relatively resilient to the challenge, with so far under 2,000 deaths across the country since the pandemic started. In addition, Japanese corporates have a long history of having strong balance sheets, and that's meant that their dividends have been a lot more resilient than those from many parts of the world.

And so turning to the Japan Trust itself, this year the revenue actually increased by 13.6 per cent, and that allowed the board to declare an increased dividend for this financial year. Relating to the overall performance over the past 12 months, the net asset value (NAV) total return of the trust was a positive 6.8 per cent, compared with the benchmark which fell by 0.1 per cent. Overall, despite all the challenges and the excitements of the pandemic and financial markets, over the 12-month period, actually, the trust was resilient and obtained a modest positive total return over the period.

AB: Very good. And how is the trust's portfolio positioned at the moment?

MB: We've got a little bit over half of the portfolio in secular growth companies and the remainder in other types of growth. Secular growth companies are those ones where we think there is the greatest long-term opportunity, but they're often businesses that are operating in vast growing and changing industries, so there's more uncertainty and more chance that things don't work out as well. Another way of looking at the portfolio is we have about a third of the portfolio in internet-related businesses and another 14 per cent of the portfolio in automation-related businesses.



Our single largest stock position remains Softbank, where we continue to believe that the combination of very good quality assets, a big discount to those assets, and value-added management, create a compelling investment case and that those three features together mutually reinforce each other.

In terms of the trust overall, the gearing fell a bit during the course of the year, and net gearing currently stands at 4 per cent. That gives us substantial ability to invest heavily if share prices end up becoming severely discounted as a result of the ongoing market sentiment.

AB: What's exciting you most at the moment?

MB: As always there are lots of things that excite us at the individual stock level. For example, Rakuten, the internet conglomerate who has been rolling out a mobile phone network in Japan, and they've been helped in doing this by the extra profits they've been getting from their ecommerce business at the current time as a beneficiary of the current situation. Also SBI, the online brokerage. This is a business that we used to describe as Japan's largest online brokerage, but now on some measure it's become Japan's largest brokerage, which is a pretty good outcome.

They've also continued to innovate, looking at, for example, Blockchain and tying up with regional banks in order to become a comprehensive financial services provider. One other thing that excites us about investing in Japan is it seems that the premium that people pay for growth companies in Japan is not necessarily so high as in some parts of the world.

For example, despite the fact that we have a third of the portfolio in internet-related businesses, and the 14 per cent in automation-related businesses, the price-to-sales of the overall portfolio on a forward-looking basis is only around one times which doesn't seem to me to incorporate a great deal of enthusiasm for what we believe to be good quality businesses.

AB: Great. And as you referred to earlier it's obviously been an extraordinary year. How do you see things going forward?

MB: I think the good news is that the trust has been resilient to those challenges. As always, any kind of economic outlook is always really difficult. We simply don't know what the future holds, either for Japan or the world. But what I think we can say to be a bit optimistic is that it seems highly unlikely that the current pandemic is going to be a major issue in five years' time and I think we continue to believe that holding a portfolio of growing businesses is a good way to grow shareholder wealth over time.

AB: Matthew, thank you very much for joining us.

MB: Thanks, Alex.

AB: For more information please visit bailliegifford.com.

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Annual Past Performance to 30 September Each Year (%)

	2016	2017	2018	2019	2020
The Baillie Gifford Japan Trust PLC	31.3	34.0	18.8	-3.3	6.6
TOPIX TR	32.2	12.6	13.0	-0.3	2.4

Source: Morningstar. Share price, total return.

Past performance is not a guide to future returns.



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The Price to Sales ratio, also known as the P/S ratio, is a method used to calculate the total value investors place on the company comparative to the total revenue generated by the business. It is measured by dividing the share price by the sales per share.

The trust's exposure to a single market and currency may increase risk.

The trust invests in overseas securities. Changes in the rates of exchange may also cause the value of your investment (and any income it may pay) to go down or up.

The aim of the trust is to achieve capital growth. You should not expect a significant, or steady, annual income from the trust.

The trust can borrow money to make further investments (sometimes known as "gearing" or "leverage"). The risk is that when this money is repaid by the trust, the value of the investments may not be enough to cover the borrowing and interest costs, and the trust will make a loss. If the Trust's investments fall in value, any invested borrowings will increase the amount of this loss.

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