
SHIN NIPPON PLC – MANAGER INSIGHTS

Praveen Kumar, investment manager of Baillie Gifford Shin Nippon PLC gives an update on the performance of Shin Nippon over the past year and shares the team's views on the long-term outlook for Japanese smaller companies.

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For a Key Information Document for Shin Nippon PLC, please visit our website at www.bailliegifford.com

Praveen Kumar: Hello, my name is Praveen Kumar, and I'm the manager of Baillie Gifford Shin Nippon. In today's video, I'd like to update you on the performance of Shin Nippon over the past year and share with you our long-term outlook for Japanese small companies.

But before we do that, I'd like to reiterate Shin Nippon's investment philosophy. Since its founding in the early 1980s, Shin Nippon has had a consistent investment philosophy of seeking out and investing in young, disruptive, and fast-growing small companies in Japan and owning the shares in these companies over the long term, typically five to ten years.

Now, this means two things. One, Shin Nippon has very low long-term turnover, and two, this is an explicitly high-growth investment strategy. The companies that Shin Nippon invests in have one thing in common. They all tend to be problem-solvers that are addressing long-standing structural issues that give rise to inefficiencies and high costs for the end consumer.

Our commitment to this high-growth, long-term investment philosophy remains unwavering whatever the market condition. We believe that by sticking to such an investment philosophy, we give ourselves the best chance of generating very attractive long-term returns for our shareholders.

The past year has been defined by the pandemic, and like in most countries, Japan too has had its share of disruptions not just to businesses but life in general. Unsurprisingly, a number of internet businesses performed really well last year. So we had Bengo4.com, which operates Japan's largest online legal website and digital contracts business; Demae-Can, which is Japan's leading online food delivery service; and M3, which runs the largest online drug marketing platform in Japan.



On the flip side, we had sectors like physical retail, travel, and manufacturing that suffered from a series of regional and national lockdowns, so we had companies like cosmetics retailer Istyle, Japan's leading travel agency H.I.S., and barcode maker Sato Holdings that works with a number of offline retailers that put in poor performances over the past year.

These companies seem to have very strong balance sheets and are financially strong, so we hope that as things normalise, these companies should bounce back quite strongly, and we're happy to hold them in the portfolio.

The pandemic has also given rise to a number of exciting investment opportunities, where we've seen the share prices of a number of fast-growing disruptor businesses being very weak due to the broader sell-off in the market as a result of the pandemic.

So we took advantage of that and bought a few holdings. Among these was GA Technologies, which has built a comprehensive artificial intelligence-led online platform to facilitate real estate transactions, and Lifenet, which is Japan's only pure play online life insurer.

We also sold a few holdings like online payment processing company Digital Garage, where we lost faith in management's ability to respond to competition, and logistics operator Hamakyorex, where we felt that the long-standing labour shortage issue in Japan will cause a margin squeeze for this company in the long run.

Overall, though, I would say portfolio activity has remained relatively muted, and we're very happy with our current holdings.

The long-term outlook for Japanese small companies looks very promising. The pandemic has been a shock to the system not just for businesses in Japan but life in general. Companies are racing to modernise and future-proof their business model through the use of IT, and consumers are more openly embracing new forms and channels of consumption.

This represents a very favourable backdrop for long-term sales and profit growth as far as Japanese small companies are concerned, and we're also very comfortable with their valuations, which we believe are at a discount to global peers. So overall we remain very enthusiastic and look forward with optimism and excitement towards investing in a number of these companies for Shin Nippon.

Thank you for watching.

Annual Past Performance to 31 March Each Year (net %)

	2016	2017	2018	2019	2020
Baillie Gifford Shin Nippon PLC	28.6	43.9	-5.0	-21.2	68.8

Source: FE, share price, total return. Sterling.

Past performance is not a guide to future results.



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Investment in smaller companies is generally considered higher risk as changes in their share prices may be greater and the shares may be harder to sell. Smaller companies may do less well in periods of unfavourable economic conditions.

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