

THE BAILLIE GIFFORD JAPAN TRUST PLC



Interim Financial Report
28 February 2023





Policy and Objective

The Baillie Gifford Japan Trust PLC aims to achieve long term capital growth principally through investment in medium to smaller sized Japanese companies which are believed to have above average prospects for growth, although it invests in larger companies when considered appropriate.

Benchmark

The portfolio benchmark against which performance is measured is the TOPIX total return (in sterling terms).

Principal Risks and Uncertainties

The principal risks facing the Company are financial risk, investment strategy risk, discount risk, smaller company risk, environmental, social and governance ('ESG') risk, leverage risk, regulatory risk, political and associated economic risk, custody and depository risk, reliance on third party service provider risk, cyber security risk and emerging risks. An explanation of these risks and how they are managed is set out on pages 8 to 10 of the Company's Annual Report and Financial Statements for the year to 31 August 2022 and is available on the Company's website:

japantrustplc.co.uk.

The principal risks and uncertainties have not changed since the date of the Annual Report. Further details on the Company's risks can be found on pages 14 and 15.

Responsibility Statement

We confirm that to the best of our knowledge:

- a) the condensed set of Financial Statements has been prepared in accordance with FRS 104 'Interim Financial Reporting';
- b) the Interim Management Report includes a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.7R (being an indication of important events that have occurred during the first six months of the financial year, their impact on the condensed set of Financial Statements and a description of the principal risks and uncertainties for the remaining six months of the year); and
- c) the Interim Financial Report includes a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.8R (disclosure of related party transactions and changes therein).

On behalf of the Board
David Kidd
Chairman
30 March 2023

Summary of Unaudited Results

	28 February 2023	31 August 2022	% change
Shareholders' funds	£770.1m	£791.0m	
Net asset value per share*	822.6p	842.4p	(2.4)
Share price	761.0p	774.0p	(1.7)
(Discount)/premium*	(7.5%)	(8.1%)	
Active share*	83%	82%	

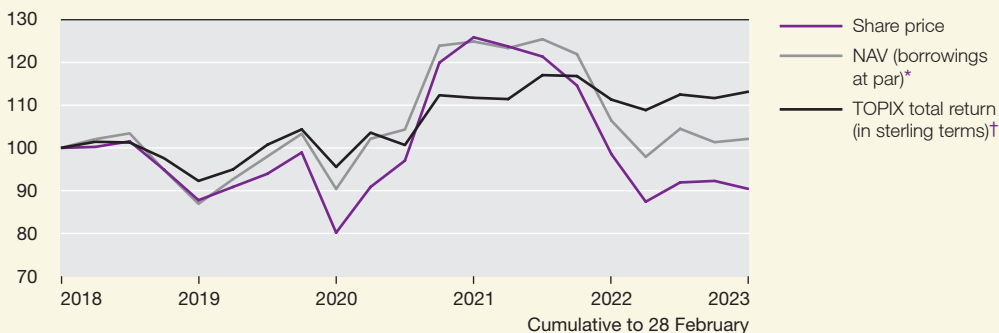
	Six months to 28 February 2023	Six months to 28 February 2022
Total returns (%)		
Net asset value per share*	(1.2)	(14.8)
Share price	(0.6)	(18.3)
TOPIX total return (in sterling terms)†	0.6	(4.9)

	Six months to 28 February 2023	Six months to 28 February 2022
Revenue earnings per share	5.28p	5.17p

	Six months to 28 February 2023		Year to 31 August 2022	
Period's high and low	High	Low	High	Low
Net asset value per share†	875.8p	758.9p	1,105.7p	707.6p
Share price	827.0p	703.0p	1,106.0p	662.0p
(Discount)/premium*	0.2%	(11.4%)	2.3%	(9.6%)

Five Year Total Return Performance

(figures rebased to 100 at 28 February 2018)



* Alternative performance measure, see Glossary of Terms and Alternative Performance Measures on pages 17 and 18.

† Source: Baillie Gifford/Refinitiv and relevant underlying data providers. See disclaimer on page 15.

Past performance is not a guide to future performance.

Interim Management Report

The six month period to the end of February 2023 was a remarkably uneventful one for returns. During the period the NAV total return of your Company was -1.2% whilst the share price total return was -0.6%. The TOPIX total return (in sterling terms) was +0.6% during the same period.

There is also little to comment on in the performance of individual holdings. The three largest positive contributors to performance were Sumitomo Mitsui Trust (+0.5%), not holding Toyota Motor (+0.5%) and Shiseido (+0.4%). The three largest negative contributors to performance were GA Technologies (-0.6%), MonotaRO (-0.5%) and not holding Mitsubishi UFJ Financial Group (-0.5%). Finally gearing contributed +0.1% to performance. These contributions are small and unremarkable relative to those that have been experienced in the past.

More interesting are several macro-economic developments over the past six months.

First, Japan has re-opened its borders, initially to business travel and then to tourists. This reopening improves the business prospects of many domestic holdings which have been starved of foreign visitors. It is also likely to have positive effects on societal openness and ideas flow. Although it has taken longer in Asia than the West, we are now firmly past the pandemic phase of Covid.

Second, Japan has clearly experienced inflation. This is a continuation of its long post-bubble journey from deflation, through a period in recent years with neither significant inflation nor deflation, finally to positive inflation. Inflation can be currently seen in headline numbers, in raw material and producer prices, in consumer products, and perhaps most significantly in wages. The wage rises that we have seen being announced in the past few months alone exceed anything that we have seen in Japan for the past 30 years.

Third, there are signs that Japan may be moving away from zero interest rates, which is the logical expectation as inflation becomes embedded. The Bank of Japan made a small adjustment to its yield curve control policy in December, announcing that it would target 10-year Japanese Government Bonds to yield up to 0.5% compared to the previous limit

of 0.25%. Subsequently Mr Kuroda stepped down as Governor of the Bank of Japan and Mr Ueda has taken over.

Meantime we have continued with the steady process of trying to improve the long-term prospects of the portfolio. During the period we bought three new holdings and sold three holdings.

The new holdings are Kao, Demae-can and Z Holdings. Kao is Japan's leading manufacturer of household products. The segments in which it operates have attractive characteristics of steady growth combined with strong entry barriers due to scale, brands and control of distribution. In the shorter term the company has experienced challenges from the lingering impacts of Covid restrictions and having to deal with rising input costs. However, we believe the company has the potential to grow its earnings substantially over the next decade by expanding into surrounding Asian markets and by improving the profitability of its domestic businesses. Demae-can is a leading Japanese online food ordering and delivery company. Following a review of the company we concluded that there remains a significant profit opportunity at scale. Meanwhile, Demae-can has continued to grow its sales rapidly and has put in place measures to strengthen its accounting systems which had been a previous concern. Given our updated view of the potential for the company, and lower expectations discounted in the share price, we decided to take a small holding again. Z Holdings was formed from the combination of Yahoo Japan and Line and has decent positions in online advertising and e-commerce. It also has exciting prospects in cashless payments through its large holding in PayPay. We expect cashless payments to show significant growth and PayPay to remain a dominant player. In the long-run the combination of businesses creates the prospects for Z Holdings to develop into a super-app comprising mutually reinforcing opportunities.

The sold holdings were Lifull, Shimano and Inpex. Lifull is a property aggregation website. In recent years it has suffered as a result of competition with Suumo, the property aggregation website of Recruit (a current holding of Japan Trust). Having come to the view that Suumo is the stronger business, we decided to sell the holding in Lifull. Shimano makes

See Glossary of Terms and Alternative Performance Measures on pages 17 and 18.

Total return information is sourced from Baillie Gifford/Refinitiv. See disclaimer on page 15.

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gears for bikes. While the company has a strong market position we do not believe that the market will grow rapidly enough to support high sales growth and with margins already high we think it unlikely that they can show significant expansion. We commented in the Annual Report on the sale of Inpex following strong share price performance post the Russian invasion of Ukraine.

We maintained our optimistic stance about the potential for investment in Japan to generate good

returns. Backing this conviction net gearing ended the period at 18.0%, little-changed from the position six months prior. There remain many exciting growth businesses in Japan and expectations embedded in share prices seem low, creating firm foundations for long-term investment.

The principal risks and uncertainties facing the Company are set out on the inside front cover of this report.

Historical Growth Sector Distribution and Recent Portfolio Activity

Portfolio allocation %	28 February 2023	New buys	Complete sales
	Secular Growth 45.8%	Demae-can Z Holdings	Lifull
	Growth Stalwarts 14.6%	Kao	
	Special Situations 15.9%		Inpex
	Cyclical Growth 23.7%		Shimano

Past performance is not a guide to future performance.

Equity Portfolio by Growth Category as at 28 February 2023

In line with our investment process, the portfolio is grouped into Growth Categories.

Secular Growth ¹	% of total investments	Growth Stalwarts ²	% of total investments	Secular Growth	
SBI Holdings	3.6	Calbee	2.9		
FANUC	3.5	Shiseido	2.7		
GMO Internet	3.1	Unicharm	2.0		
Misumi	2.7	Nintendo	1.8		
Kubota	2.5	Pola Orbis	1.8		
CyberAgent	2.5	Sugi	0.8		
Rakuten	2.3	Kao	0.7		
Systemex	2.0	Makita	0.7		
Sato	1.9	Park24	0.6		
TKP	1.6	Secom	0.3		
Oisix	1.5	Sawai Pharmaceutical	0.3		
Recruit Holdings	1.5	Total	14.6		
MonotaRO	1.3	Special Situations ³	% of total investments		
Nidec	1.3	SoftBank	4.7		
Topcon	1.2	MS&AD Insurance	2.9		
Keyence	1.1	Sony	2.9		
Rakusl	1.1	mixi	2.9		
SMC	1.0	Tokyo Tatemono	1.3		
GA Technologies	1.0	Colopl	1.2		
Mercari	0.9	Total	15.9		
Toyota Tsusho	0.9	Cyclical Growth ⁴	% of total investments		
Seria Co Ltd	0.8	Sumitomo Mitsui Trust	3.6		
Demae-can	0.7	Bridgestone	3.0		
Broadleaf	0.6	Itochu	2.7		
Digital Garage	0.6	Sumitomo Metal Mining	2.4		
Istyle	0.6	DENSO	2.3		
Pigeon	0.5	DMG Mori	1.9		
PeptiDream	0.5	Rohm	1.5		
Z Holdings	0.5	Nifco	1.5		
freee K.K.	0.4	Murata Manufacturing	1.4		
Noritsu Koki	0.4	Outsourcing	1.1		
Rizap	0.4	Chugoku Marine Paints	0.8		
BASE	0.4	lida	0.8		
Nippon Ceramic	0.4	Shima Seiki	0.4		
Infomart	0.3	Tsubaki Nakashima	0.3		
Bengo4.com	0.2	Total	23.7		
Total	45.8				

¹ Secular Growth: Opportunity to grow rapidly but where there are a number of potential outcomes.

² Growth Stalwarts: Growth is less rapid but more predictable.

³ Special Situations: Performance has not been good but there is a reason to believe improvements are underway.

⁴ Cyclical Growth: Earnings do not rise every year but are expected to be higher from one cycle to the next.

Twenty Largest Holdings at 28 February 2023

Name	Business	Value £'000	% of total investments
SoftBank	Telecom operator and technology investor	42,923	4.7
SBI Holdings	Online financial services	33,016	3.6
Sumitomo Mitsui Trust	Japanese trust bank and investment manager	32,942	3.6
FANUC	Robotics manufacturer	31,880	3.5
GMO Internet	Internet conglomerate	27,833	3.1
Bridgestone	Tyre manufacturing	27,163	3.0
MS&AD Insurance	Insurance	26,692	2.9
Sony	Consumer electronics, films and finance	26,373	2.9
Calbee	Branded snack foods	26,213	2.9
mixi	Mobile gaming	26,113	2.9
Itochu	General trading firm	24,664	2.7
Shiseido	Japanese cosmetics manufacturer	24,311	2.7
Misumi	Online distributor of precision machinery parts	24,192	2.7
Kubota	Agricultural machinery	22,577	2.5
CyberAgent	Japanese internet advertising and content	22,441	2.5
Sumitomo Metal Mining	Smelting and copper, nickel and gold mining	21,810	2.4
Rakuten	Internet retail and financial services	21,231	2.3
DENSO	Auto parts	20,645	2.3
Unicharm	Sanitary napkins and baby products	18,244	2.0
Systemex	Medical testing equipment	18,103	2.0
Total		519,366	57.2

Income Statement (unaudited)

	For the six months ended 28 February 2023			For the six months ended 28 February 2022		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on sales of investments	–	2,984	2,984	–	18,469	18,469
Movement in investment holding gains	–	(21,434)	(21,434)	–	(165,919)	(165,919)
Currency gains	–	3,102	3,102	–	2,426	2,426
Income from investments and interest receivable	9,352	–	9,352	9,612	–	9,612
Investment management fee	(2,260)	–	(2,260)	(2,540)	–	(2,540)
Other administrative expenses	(326)	–	(326)	(350)	–	(350)
Net return before finance costs and taxation	6,766	(15,348)	(8,582)	6,722	(145,024)	(138,302)
Finance costs of borrowings	(885)	–	(885)	(886)	–	(886)
Net return before taxation	5,881	(15,348)	(9,467)	5,836	(145,024)	(139,188)
Tax	(935)	–	(935)	(961)	–	(961)
Net return after taxation	4,946	(15,348)	(10,402)	4,875	(145,024)	(140,149)
Net return per ordinary share (note 5)	5.28p	(16.39p)	(11.11p)	5.17p	(153.74p)	(148.57p)

The total column of this statement is the profit and loss account of the Company. The supplementary revenue and capital columns are prepared under guidance published by the Association of Investment Companies.

All revenue and capital items in this statement derive from continuing operations.

A Statement of Comprehensive Income is not required as all gains and losses of the Company have been reflected in the above statement.

The accompanying notes on pages 11 to 13 are an integral part of the Financial Statements.

Balance Sheet (unaudited)

	At 28 February 2023 £'000	At 31 August 2022 £'000
Fixed assets		
Investments held at fair value through profit or loss (note 6)	907,040	930,354
Current assets		
Debtors	3,121	2,185
Cash and cash equivalents	8,293	11,017
	11,414	13,202
Creditors		
Amounts falling due within one year	(91,939)	(94,895)
Net current liabilities	(80,525)	(81,693)
Total assets less current liabilities	826,515	848,661
Creditors		
Amounts falling due after more than one year:		
Bank loans (note 7)	(56,395)	(57,655)
Net assets	770,120	791,006
Capital and reserves		
Share capital	4,717	4,717
Share premium	213,902	213,902
Capital redemption reserve	203	203
Capital reserve	539,008	556,414
Revenue reserve	12,290	15,770
Shareholders' funds	770,120	791,006
Net asset value per ordinary share*	822.6p	842.4p
Ordinary shares in issue (note 8)	93,622,614	93,899,459

* See Glossary of Terms and Alternative Performance Measures on pages 17 and 18.

The accompanying notes on pages 11 to 13 are an integral part of the Financial Statements.

Statement of Changes in Equity (unaudited)

For the six months ended 28 February 2023

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve* £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 September 2022	4,717	213,902	203	556,414	15,770	791,006
Shares bought back	–	–	–	(2,058)	–	(2,058)
Net return after taxation	–	–	–	(15,348)	4,946	(10,402)
Dividends paid during the period (note 4)	–	–	–	–	(8,426)	(8,426)
Shareholders' funds at 28 February 2023	4,717	213,902	203	539,008	12,290	770,120

For the six months ended 28 February 2022

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve* £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 September 2021	4,717	213,902	203	725,811	10,769	955,402
Net return after taxation	–	–	–	(145,024)	4,875	(140,149)
Dividends paid during the period (note 4)	–	–	–	–	(5,660)	(5,660)
Shareholders' funds at 28 February 2022	4,717	213,902	203	580,787	9,984	809,593

* The capital reserve balance at 28 February 2023 includes investment holding gains on investments of £116,236,000 (28 February 2022 – gains of £164,930,000).

The accompanying notes on pages 11 to 13 are an integral part of the Financial Statements.

Condensed Cash Flow Statement (unaudited)

	Six months to 28 February 2023 £'000	Six months to 28 February 2022 £'000
Cash flows from operating activities		
Net return before taxation	(9,467)	(139,188)
Net losses on investments	18,450	147,450
Currency gains	(3,102)	(2,426)
Finance costs of borrowings	885	886
Overseas withholding tax	(870)	(839)
Changes in debtors and creditors	(2,249)	(1,439)
Cash from operations	3,647	4,444
Interest paid	(901)	(913)
Net cash inflow from operating activities	2,746	3,531
Cash flows from investing activities		
Acquisitions of investments	(29,585)	(129,815)
Disposals of investments	34,763	90,781
Exchange differences on settlement of investment transactions	446	(7)
Net cash inflow/(outflow) from investing activities	5,624	(39,041)
Shares (bought back)/issued (note 8)	(2,058)	–
Equity dividends paid (note 4)	(8,426)	(5,660)
Bank loans drawn down	15,624	–
Bank loans repaid	(16,189)	–
Net cash outflow from financing activities	(11,049)	(5,660)
Decrease in cash and cash equivalents	(2,679)	(41,170)
Exchange movements	(45)	(641)
Cash and cash equivalents at start of period*	11,017	44,289
Cash and cash equivalents at end of period*	8,293	2,478

* Cash and cash equivalents represent cash at bank and short term money market deposits repayable on demand.

The accompanying notes on pages 11 to 13 are an integral part of the Financial Statements.

Notes to the Condensed Financial Statements (unaudited)

1 Basis of Accounting

The condensed Financial Statements for the six months to 28 February 2023 comprise the statements set out on the previous pages together with the related notes on pages 11 to 13. They have been prepared in accordance with FRS 104 'Interim Financial Reporting' and the AIC's Statement of Recommended Practice issued in November 2014 and updated in July 2022 with consequential amendments. They have not been audited or reviewed by the Auditor pursuant to the Auditing Practices Board Guidance on 'Review of Interim Financial Information'. The Financial Statements for the six months to 28 February 2023 have been prepared on the basis of the same accounting policies as set out in the Company's Annual Report and Financial Statements at 31 August 2022.

Going Concern

Having considered the Company's principal risks and uncertainties, as set out on the inside front cover, together with its current position, investment objective and policy, its assets and liabilities, and projected income and expenditure, together with the Company's dividend policy, it is the Directors' opinion that the Company has adequate resources to continue in operational existence for the foreseeable future. The Board has considered severe but plausible downside scenarios, including the impact of heightened market volatility over recent months due to macroeconomic and geopolitical concerns, including inflation, interest rates and the ongoing conflict in Ukraine, but does not believe the Company's going concern status is affected. The Company's assets, the majority of which are investments in quoted securities which are readily realisable, exceed its liabilities significantly. All borrowings require the prior approval of the Board. Gearing levels and compliance with borrowing covenants are reviewed by the Board on a regular basis. In accordance with the Company's Articles of Association, shareholders have the right to vote annually at the Annual General Meeting on whether to continue the Company. The next continuation vote will be in December 2023. The Directors have no reason to believe that the continuation resolution will not be passed at the Annual General Meeting. The Company has continued to comply with the investment trust status requirements of section 1158 of the Corporation Tax Act 2010 and the Investment Trust (Approved Company) (Tax) Regulations 2011. Accordingly, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing these Financial Statements and confirm that they are not aware of any material uncertainties which may affect the Company's ability to continue to do so over a period of at least twelve months from the date of approval of these Financial Statements.

2 Financial Information

The financial information contained within this Interim Financial Report does not constitute statutory accounts as defined in sections 434 to 436 of the Companies Act 2006. The financial information for the year ended 31 August 2022 has been extracted from the statutory accounts which have been filed with the Registrar of Companies. The Auditor's Report on those accounts was not qualified, did not include a reference to any matters to which the Auditor drew attention by way of emphasis without qualifying its report and did not contain statements under sections 498(2) or (3) of the Companies Act 2006.

3 Investment Manager

Baillie Gifford & Co Limited, a wholly owned subsidiary of Baillie Gifford & Co, has been appointed by the Company as its Alternative Investment Fund Manager and Company Secretary. The investment management function has been delegated to Baillie Gifford & Co. The management agreement can be terminated on not less than 6 months' notice, or on shorter notice in certain circumstances. The annual management fee is 0.75% on the first £50 million of net assets, 0.65% on the next £200 million of net assets and 0.55% on the remaining net assets, calculated and payable quarterly.

Notes to the Condensed Financial Statements (unaudited) (continued)

4 Dividends

	Six months to 28 February 2023 £'000	Six months to 28 February 2022 £'000
Amounts recognised as a distribution in the period:		
Previous year's final dividend of 9.00p paid 21 December 2022 (2022 – 6.00p paid on 21 December 2021)	8,426	5,660

No interim dividend has been declared.

5 Net Return per Ordinary Share

	Six months to 28 February 2023 £'000	Six months to 28 February 2022 £'000
Revenue return after taxation	4,946	4,875
Capital return after taxation	(15,348)	(145,024)
Total net return	(10,402)	(140,149)
Weighted average number of ordinary shares in issue	93,667,547	94,328,209

Net return per ordinary share is based on the above totals of revenue and capital and the weighted average number of ordinary shares in issue during each period. There are no dilutive or potentially dilutive shares in issue.

6 Fair Value Hierarchy

The fair value hierarchy used to analyse the basis on which the fair values of financial instruments held at fair value through the profit or loss account are measured is described below. Fair value measurements are categorised on the basis of the lowest level input that is significant to the fair value measurement.

Level 1 – using unadjusted quoted prices for identical instruments in an active market;

Level 2 – using inputs, other than quoted prices included within Level 1, that are directly or indirectly observable (based on market data); and

Level 3 – using inputs that are unobservable (for which market data is unavailable).

The fair value of listed investments is the last traded price which is equivalent to the bid price on Japanese markets.

The financial assets designated as valued at fair value through profit or loss are all categorised as Level 1 in the above hierarchy. None of the financial liabilities are designated at fair value through profit or loss in the Financial Statements.

All of the Company's investments fall into Level 1 for the periods reported.

7 Bank Loans

Bank loans of £146.1 million (¥24.1 billion) have been drawn down under yen loan facilities which are repayable between August 2023 and November 2024 (31 August 2022 – £149.4 million (¥24.1 billion)).

8 Share Capital

The Company has the authority to issue shares/sell treasury shares at a premium to net asset value as well as to buy back shares at a discount to net asset value.

During the period, no shares were issued and 276,845 shares were bought back into Treasury (28 February 2022 – nil issued and nil bought back). There were 705,595 shares held in Treasury at 28 February 2023 (28 February 2022 – nil). Between 1 March 2023 and 30 March 2023, the Company bought back a further 50,000 shares into Treasury. The Company has authority remaining to buy back 13,954,276 ordinary shares.

9 Transaction Costs

Transaction costs incurred on the purchase and sale of the investments are added to the purchase cost or deducted from the sales proceeds, as appropriate. During the period, transaction costs on purchases amounted to £12,000 (28 February 2022 – £48,000) and transaction costs on sales amounted to £11,000 (28 February 2022 – £50,000).

10 Related Party Transactions

There have been no transactions with related parties during the first six months of the current financial year that have materially affected the financial position or the performance of the Company during that period and there have been no changes in the related party transactions described in the last Annual Report and Financial Statements that could have had such an effect on the Company during that period.

None of the views expressed in this document should be construed as advice to buy or sell a particular investment.

Further Shareholder Information

How to Invest

Baillie Gifford Japan Trust's shares are traded on the London Stock Exchange. They can be bought through a stockbroker or by asking a professional adviser to do so. If you are interested in investing directly in The Baillie Gifford Japan Trust PLC you can do so online. There are a number of companies offering real time online dealing services – find out more by visiting japantrustplc.co.uk.

Client Relations Team Contact Details

You can contact the Baillie Gifford Client Relations Team by telephone (your call may be recorded for training or monitoring purposes), email or post. See contact details in the 'Further Information' box on the back cover.

Share Register Enquiries

Computershare Investor Services PLC maintains the share register on behalf of the Company. In the event of queries regarding shares registered in your own name, please contact the Registrars on 0370 889 3223.

Automatic Exchange of Information

In order to fulfil its obligations under UK tax legislation relating to the automatic exchange of information, The Baillie Gifford Japan Trust PLC is required to collect and report certain information about certain shareholders.

The legislation requires investment trust companies to provide personal information to HMRC on certain investors who purchase shares in investment trusts. Accordingly, The Baillie Gifford Japan Trust PLC must provide information annually to the local tax authority on the tax residencies of a number of non-UK based certificated shareholders and corporate entities.

Shareholders, excluding those whose shares are held in CREST, who come on to the share register will be sent a certification form for the purposes of collecting this information.

For further information, please see HMRC's Quick Guide: Automatic Exchange of Information – information for account holders gov.uk/government/publications/exchange-of-information-account-holders.

Risk Warnings

Past performance is not a guide to future performance.

Baillie Gifford Japan is a listed UK company. As a result, the value of its shares and any income from those shares can fall as well as rise and investors may not get back the amount invested.

As Baillie Gifford Japan 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.

Baillie Gifford Japan has borrowed money to make further investments (sometimes known as 'gearing' or 'leverage'). The risk is that when this money is repaid by the Company, the value of the investments may not be enough to cover the borrowing and interest costs, and the Company will make a loss. If the Company's investments fall in value, any borrowings will increase the amount of this loss.

Baillie Gifford Japan can buy back its own shares. The risks from borrowing, referred to above, are increased when the Company buys back its own shares.

Market values for securities which have become difficult to trade may not be readily available, and there can be no assurance that any value assigned to such securities will accurately reflect the price the Company might receive upon their sale.

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.

Baillie Gifford Japan invests in Japan and exposure to a single market and currency may increase risk.

Baillie Gifford Japan can make use of derivatives which may impact on its performance. Currently the Company does not make use of derivatives.

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

Share prices may either be below (at a discount) or above (at a premium) the net asset value (NAV). The Company may issue new shares when the price is at a premium which may reduce the share price. Shares bought at a premium may have a greater risk of loss than those bought at a discount.

Risk Warnings (continued)

Charges are deducted from income. Where income is low, the expenses may be greater than the total income received, meaning the Company may not pay a dividend and the capital value would be reduced.

Shareholders in Baillie Gifford Japan have the right to vote at the Annual General Meeting on whether to continue the Company, or wind it up. If the shareholders decide to wind the Company up, the assets will be sold and you will receive a cash sum in relation to your shareholding.

You should note that tax rates and reliefs may change at any time and their value depends on your circumstances. The favourable tax treatment of ISAs may change.

Investment trusts are UK public listed companies and as such comply with the requirements of the UK Listing Authority. They are not authorised or regulated by the Financial Conduct Authority.

The staff of Baillie Gifford & Co may hold shares in Baillie Gifford Japan Trust and may buy or sell such shares from time to time.

Further details of the risks associated with investing in the Company, including a Key Information Document and how charges are applied, can be found at japantrustplc.co.uk or by calling Baillie Gifford on 0800 917 2112.

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Sustainable Finance Disclosures Regulation ('SFDR')

The EU Sustainable Finance Disclosure Regulation ('SFDR') does not have a direct impact in the UK due to Brexit, however, it applies to third-country products marketed in the EU. As The Baillie Gifford Japan Trust PLC is marketed in the EU by the AIFM, Baillie Gifford & Co Limited, via the National Private Placement Regime, ('NPPR') the following disclosures have been provided to comply with the high-level requirements of SFDR.

The AIFM has adopted Baillie Gifford & Co's Governance and Sustainable Principles and Guidelines as its policy on integration of sustainability risks in investment decisions. Baillie Gifford & Co's approach to investment is based on identifying and holding high quality growth businesses that enjoy

sustainable competitive advantages in their marketplace. To do this it looks beyond current financial performance, undertaking proprietary research to build an in-depth knowledge of an individual company and a view on its long-term prospects. This includes the consideration of sustainability factors (environmental, social and/or governance matters) which it believes will positively or negatively influence the financial returns of an investment. More detail on the Managers' approach to sustainability can be found in the Governance and Sustainability Principles and Guidelines document, available publicly on the Baillie Gifford website [bailliegifford.com](https://www.bailliegifford.com).

Taxonomy Regulation

The Taxonomy Regulation establishes an EU-wide framework of criteria for environmentally sustainable economic activities in respect of six environmental objectives. It builds on the disclosure requirements under SFDR by introducing additional disclosure obligations in respect of alternative investment funds

that invest in an economic activity that contributes to an environmental objective. The Company does not commit to make sustainable investments as defined under SFDR. As such, the underlying investments do not take into account the EU criteria for environmentally sustainable economic activities.

Glossary of Terms and Alternative Performance Measures (APM)

An alternative performance measure is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. The APMs noted below are commonly used measures within the investment trust industry and serve to improve comparability between investment trusts.

Total Assets

Total assets less current liabilities, before deduction of all borrowings at par value.

Net Asset Value ('NAV')

Also described as shareholders' funds, NAV is the value of total assets less liabilities (including borrowings). The NAV per share is calculated by dividing this amount by the number of ordinary shares in issue. Borrowings are valued at their nominal par value. Par value approximates to amortised cost. The Company's yen denominated loans are valued at their sterling equivalent.

Net Current Assets

Net current assets comprise current assets less current liabilities, excluding long-term borrowings at par value.

(Discount)/Premium (APM)

As stockmarkets and share prices vary, an investment trust's share price is rarely the same as its NAV. When the share price is lower than the NAV per share it is said to be trading at a discount. The size of the discount is calculated by subtracting the share price from the NAV per share and is usually expressed as a percentage of the NAV per share. If the share price is higher than the NAV per share, this situation is called a premium.

		28 February 2023	31 August 2022
Net asset value per ordinary share	(a)	822.6p	842.4p
Share price	(b)	761.0p	774.0p
(Discount)/premium	(b - a) ÷ a expressed as a percentage	(7.5%)	(8.1%)

Total Return (APM)

The total return is the return to shareholders after reinvesting the net dividend on the date that the share price goes ex-dividend.

		Feb 2023 NAV (par)	Feb 2023 Share Price	Feb 2022 NAV (par)	Feb 2022 Share Price
Closing NAV per share/share price	(a)	822.6p	761.0p	858.3p	830.0p
Dividend adjustment factor*	(b)	1.0113	1.0113	1.0058	1.0059
Adjusted closing NAV per share/ share price	(c) = (a) x (b)	831.9p	769.6p	863.3p	834.9p
Opening NAV per share/ share price	(d)	842.4p	774.0p	1,012.8p	1,022.0p
Total return	((c ÷ d) - 1)	(1.2%)	(0.6%)	(14.8%)	(18.3%)

* The dividend adjustment factor is calculated on the assumption that the dividend of 9.00p (2022 – 6.00p) paid by the Company in the period under review was invested into shares of the Company at the cum income NAV per share/share price, as appropriate, at the ex-dividend date.

Gearing (APM)

At its simplest, gearing is borrowing. Just like any other public company, an investment trust can borrow money to invest in additional investments for its portfolio. The effect of the borrowing on the shareholders' assets is called 'gearing'. If the Company's assets grow, the shareholders' assets grow proportionately more because the debt remains the same. But if the value of the Company's assets falls, the situation is reversed. Gearing can therefore enhance performance in rising markets but can adversely impact performance in falling markets.

Gearing is the Company's borrowings at par less cash and cash equivalents expressed as a percentage of shareholders' funds.

Potential gearing is the Company's borrowings expressed at par as a percentage of shareholders' funds.

Leverage (APM)

For the purposes of the Alternative Investment Fund Managers (AIFM) Regulations, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company's exposure and its net asset value and can be calculated on a gross and a commitment method. Under the gross method, exposure represents the sum of the Company's positions after the deduction of sterling cash balances, without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated without the deduction of sterling cash balances and after certain hedging and netting positions are offset against each other.

Active Share (APM)

Active share, a measure of how actively a portfolio is managed, is the percentage of the portfolio that differs from its comparative index. It is calculated by deducting from 100 the percentage of the portfolio that overlaps with the comparative index. An active share of 100 indicates no overlap with the index and an active share of zero indicates a portfolio that tracks the index.

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