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Baillie Gifford Shin Nippon PLC
14 April 2025

Baillie Gifford Shin Nippon PLC (BGS)

Legal Entity Identifier: X5XCIPCJQCSUF8H1FU83

Regulated Information Classification: Annual Financial and Audit Reports

Annual Report and Financial Statements

Further to the statement of audited annual results announced to the Stock Exchange on 3 April 2025, Baillie Gifford Shin Nippon PLC ("the Company") announces that the Company's Annual Report and Financial Statements for the year ended 31 January 2025, including the Notice of Annual General Meeting, has today been posted to shareholders and submitted electronically to the National Storage Mechanism where it will shortly be available for inspection at https://data.fca.org.uk/#/nsm/nationalstoragemechanism

It is also available on the Company page of the Baillie Gifford website at: shinnippon.co.uk (as is the statement of audited annual results announced by the Company on 3 April 2025).

Responsibility Statement of the Directors in respect of the Annual Financial Report

The Directors confirm that, to the best of their knowledge:

— the Financial Statements set out in the Annual Report and Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and net return of the Company;

— the Strategic report/Directors' report set out in the Annual Report and Financial Statements includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company and business faces (as also set out below); and

— the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Principal and emerging risks relating to the Company

As explained on pages 76 and 77 of the Annual Report and Financial Statements there is a process for identifying, evaluating and managing the risks faced by the Company on a regular basis. The Directors have carried out a robust assessment of the principal and emerging risks facing the Company, including those that would threaten its business model, future performance, regulatory compliance, solvency or liquidity. There have been no material changes to the principal risks during the year. A description of these risks, an assessment of the risk level and how they are being managed or mitigated is set out below.

The Board considers the heightened macroeconomic and geopolitical concerns to be factors which exacerbate existing risks, rather than discrete risks, within the context of an investment trust. Their impact is considered within the relevant risks.

What is the risk?	How is it managed?		Current assessment of risk
Financial Risk: The Company's assets consist mainly of listed securities (98.0% of the investment portfolio) and its principal financial risks are therefore market related and include market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. An explanation of those risks and how they are managed is contained in note 18 to the Financial Statements on pages 109 to 115 of the Annual Report and Financial Statements.	The Board has, in particular, considered the impact of market volatility due to macroeconomic factors such as higher inflation and geopolitical concerns. To mitigate this risk the Board considers at each meeting various portfolio metrics including individual stock performance and weightings, the top and bottom contributors to performance and relative sector weightings against the comparative index. The portfolio manager provides rationale for stock selection decisions. A comprehensive strategy meeting is held annually to facilitate challenge of the Company's strategy. The Board has considered the potential impact on the yen/sterling exchange rate of various geopolitical events. The value of the Company's investment portfolio would be affected by any impact, positively or negatively, on sterling but would be partially offset by the effect of exchange movements on the Company's yen denominated borrowings.	↑	Risk level: High This risk is considered to have increased as market volatility from ongoing geopolitical instability has a greater impact on the share prices of smaller companies which are typically more sensitive than larger companies to market sentiment and macroeconomic shocks.

What is the risk?	How is it managed?		Current assessment of risk
Private company (unlisted) investment risk: The Company's liquidity risk could be increased by its investment in private company securities. These assets may be more difficult to buy or sell, assessment of their value is more subjective	To mitigate this risk, the Board considers the private company securities in the context of the overall investment strategy and provides guidance to the Managers on the maximum exposure to private company securities. Valuations of private companies are carried out on a frequent basis by the Manager and updated regularly for identified changes in	↑	Risk level: Moderate This risk is considered to have increased as private company investment valuation risk increases in volatile markets. The more difficult fundraising environment and IPO conditions increase overall investment risk conditions for private companies.

than for investments listed on a recognised stock exchange and their valuations may be perceived to be more volatile or out of date.	operational developments or recent transactions in shares. The Board reviews the valuations in detail which are carried out by a third party valuation specialist, subject to the Managers' private company valuation specialist input and is also subject to external audit scrutiny annually. The investment policy limits the amount which may be invested in private company securities to 10% of the total assets of the Company in aggregate, measured at the time of investment.		There has been no change to the number of private company investments during the period.

What is the risk?	How is it managed?		Current assessment of risk
Performance and investment strategy risk: Pursuit of an investment strategy to fulfil the Company's objective which the market perceives to be unattractive or inappropriate or out of favour, or the ineffective implementation of an attractive or appropriate strategy from poor stock selection and management of gearing, may lead to reduced returns for shareholders and, as a result, a decreased demand for the Company's shares. This may lead to the Company's shares trading at a widening discount to their net asset value.	To mitigate this risk, the Board regularly reviews and monitors the Company's objective and investment policy and strategy, the investment portfolio and its performance, the level of discount/premium to net asset value at which the shares trade and movements in the share register and raises any matters of concern with the Managers. Following a thorough review of the investment strategy in November 2024, the Board and the Managers have decided to appoint a deputy portfolio manager and make a non-material change to the Investment Policy (see Chair's Statement on page 8 of the Annual Report and Financial Statements).	↑	Risk level: High This risk is considered to be increasing as the market's appetite for growth stocks, typically held by the Company, has decreased during the recent period of ongoing macroeconomic and geopolitical concerns.

What is the risk?	How is it managed?		Current assessment of risk
Climate and governance risk: Perceived problems on environmental, social and governance ('ESG') matters in an investee company could lead to that company's shares being less attractive to investors, adversely affecting its share price, in addition to potential valuation issues arising from any direct impact of the failure to address the ESG weakness on the operations or management of the investee company (for example in the event of an industrial accident or spillage). Repeated failure by the Managers to identify ESG weaknesses in investee companies could lead to the Company's own shares being less attractive to investors, adversely affecting its own share price. In addition the valuation of investments could be impacted by climate change.	This is mitigated by the Managers' strong ESG stewardship and engagement policies which are available to view on the Managers' website, bailliegifford.com, and which have been reviewed and endorsed by the Company, and which have been fully integrated into the investment process as well as the extensive up-front and ongoing due diligence which the Manager undertakes on each investee company. Due diligence includes assessment of the risks inherent in climate change (see page 78 of the Annual Report and Financial Statements).	—	Risk level: Moderate This risk is considered to be unchanged. The Manager continues to employ strong ESG stewardship and engagement policies.

What is the risk?	How is it managed?		Current assessment of risk
Discount risk: The discount/premium at which the Company's shares trade relative to its net asset value can change. The risk of a widening discount is that it may undermine investor confidence in the Company and shareholders selling their shares will get less than the net asset value of those shares.	To manage this risk, the Board monitors the level of discount/premium at which the shares trade and the Company has authority to buy back its existing shares, when deemed by the Board to be in the best interests of the Company and its shareholders. The Board has committed to a one-off tender offer for up to 15% of the issued share capital if the NAV total return per share (with debt valued at fair value) over the 3 years to 31 January 2027 underperforms the MSCI Japan Small Cap index (in sterling terms). Over the year to 31 January 2025 the Company bought back 30.3m shares (2024: 4.4m shares) to be held in treasury. The Board continues to closely monitor the discount and the impact of the current buyback programme being deployed.	↑	Risk level: High This risk is considered to have increased as there is an elevated risk that sentiment towards the Company's shares could deteriorate resulting in a widening of the discount. The Company's discount was unchanged at the year end compared to 31 January 2024.

What is the risk?	How is it managed?		Current assessment of risk
Regulatory risk: Failure to comply with applicable legal and regulatory requirements such as the tax rules for investment trust companies, the FCA Listing Rules and the Companies Act could lead to suspension of the Company's Stock Exchange listing, financial penalties, a qualified audit report or the Company being subject to tax on capital gains.	To mitigate this risk, Baillie Gifford's Business Risk, Internal Audit and Compliance departments provide regular reports to the Audit Committee on Baillie Gifford's monitoring programmes. Major regulatory change could impose disproportionate compliance burdens on the Company. In such circumstances representation is made to ensure that the special circumstances of investment trusts are recognised. Shareholder documents and announcements, including the Company's published Interim and Annual Report and Financial Statements, are subject to stringent review processes and procedures are in place to ensure adherence to the Transparency Rules and the Market Abuse Regulation with reference to inside information.	—	Risk level: Low This risk is considered to be unchanged. All control procedures are working effectively. There have been no material regulatory changes that have impacted the Company during the year.

What is the risk?	How is it managed?		Current assessment of risk
Custody and depositary risk:	To mitigate this risk, the Audit Committee	—	Risk level: Low

Safe custody of the Company's assets may be compromised through control failures by the Depositary, including cyber security incidents.	receives six-monthly reports from the Depositary confirming safe custody of the Company's assets held by the Custodian. Cash and portfolio holdings are independently reconciled to the Custodian's records by the Managers who also agree uncertificated private portfolio holdings to confirmations from investee companies. In addition, the existence of assets is subject to annual external audit and the Custodian's audited internal controls reports are reviewed by Baillie Gifford's Business Risk department. A summary of the key points is reported to the Audit Committee and any concerns investigated.		This risk is considered to be unchanged. All control procedures are working effectively.
What is the risk?	**How is it managed?**		**Current assessment of risk**
Small company risk: The Company has investments in smaller companies which are 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.	To mitigate this risk, the Board reviews the investment portfolio at each meeting and discusses the investment case and portfolio weightings with the Managers. A spread of risk is achieved by holding a minimum of 40 companies and the relative industry weightings against the comparative index are considered at each Board meeting. Following a thorough review of the investment strategy in November 2024, the Board and the Managers have decided to appoint a deputy portfolio manager and make a non-material change to the Investment Policy (see Chair's Statement on pages 8 and 9 of the Annual Report and Financial Statements).	↑	Risk level: High This risk is considered to have increased as market volatility from ongoing geopolitical instability has a greater impact on the share prices of smaller companies which are typically more sensitive to market sentiment and macroeconomic shocks.
What is the risk?	**How is it managed?**		**Current assessment of risk**
Operational risk: Failure of Baillie Gifford's systems or those of other third party service providers could lead to an inability to provide accurate reporting and monitoring or a misappropriation of assets.	To mitigate this risk, Baillie Gifford has a comprehensive business continuity plan which facilitates continued operation of the business in the event of a service disruption. The Audit Committee reviews Baillie Gifford's Report on Internal Controls and reports by other key third party providers are reviewed by Baillie Gifford on behalf of the Board and a summary of the key points is reported to the Audit Committee and any concerns investigated. The other key third party service providers have not experienced significant operational difficulties affecting their respective services to the Company.	—	Risk level: Low All control procedures are working effectively.
What is the risk?	**How is it managed?**		**Current assessment of risk**
Cyber security risk: A cyber attack on Baillie Gifford's network or that of a third party service provider could impact the confidentiality, integrity or availability of data and systems.	To mitigate this risk, the Audit Committee reviews Reports on Internal Controls published by Baillie Gifford and other third party service providers. Baillie Gifford's Business Risk Department report to the Audit Committee on the effectiveness of information security controls in place at Baillie Gifford and its business continuity framework. Cyber security due diligence is performed by Baillie Gifford on third party service providers which includes a review of crisis management and business continuity frameworks.	↑	Risk level: Moderate This risk is considered to be increasing due to ongoing geopolitical tensions and and an observed increase in malign cyber activity. Emerging technologies, including AI, could potentially increase information security risks. In addition, service providers operate a hybrid approach of remote and office working, thereby increasing the potential of a cyber security threat.
What is the risk?	**How is it managed?**		**Current assessment of risk**
Leverage risk: The Company may borrow money for investment purposes. If the investments fall in value, any borrowings will magnify the impact of this loss. If borrowing facilities are not renewed, the Company may have to sell investments to repay borrowings.	To mitigate this risk, all borrowings require the prior approval of the Board and leverage levels are discussed by the Board and Managers at every meeting. Covenant levels are monitored regularly. Details of the Company's current borrowing facilities can be found in note 11 on page 107 of the Annual Report and Financial Statements. The majority of the Company's investments are in quoted securities that are readily realisable. Further information on leverage can be found on page 124 and the Glossary of terms and Alternative Performance Measures on pages 129 to 132 of the Annual Report and Financial Statements.	↑	Risk level: Moderate This risk is considered to be increasing due to the impact of gearing during a period of underperformance. The level of gearing reduced from 18% to 16% over the year. During the year, the existing secured three-year ¥5bn and seven-year ¥2.1bn fixed rate facilities with ING Bank N.V. ('ING) were refinanced on expiry with a ¥7.1bn revolving credit facility with Bank of America, N.A. London Branch (Bank of America') expiring on 7 November 2027. Additionally, following the financial period end, the remaining ¥2bn and ¥7bn revolving credit facilities with ING were cancelled and incorporated into the cheaper secured revolving credit facility with Bank of America (extended to ¥16.1bn). The Company's revolving credit facilities can be repaid with no penalties, should the decision be taken to reduce gearing.
What is the risk?	**How is it managed?**		**Current assessment of risk**
Political and associated financial risk: The Board is of the view that political change in areas in which the Company invests or may invest may have financial consequences for the Company.	Political developments are closely monitored and considered by the Board. The Board has particular regard to macroeconomic and geopolitical tensions, and considers the potential for negative impact of military action or trade barriers.	↑	Risk level: High This risk is considered to be increasing as governments and consumers around the world continue to assess the impact of geopolitical and macroeconomic tensions.

Emerging risks: As explained on pages 76 and 77 of the Annual Report and Financial Statements, the Board has regular discussions on principal risks and uncertainties, including any risks which are not an immediate threat but could arise in the longer term. The Board considers that the key emerging risks arise from the interconnectedness of global economies and the related exposure of the investment portfolio to external and emerging threats such as the societal and financial implications of escalating geopolitical tensions, cyber security risks including developing AI and quantum computing capabilities, and new coronavirus variants or similar public health threats. This is mitigated by the Managers' close links to the investee companies and their ability to ask questions on contingency plans. The Managers believe the impact of such events may be to slow growth rather than to invalidate the investment rationale over the long term.

↑ **Increasing Risk** ↓ **Decreasing Risk** **─ Stable Risk**

Baillie Gifford & Co Limited
Company Secretaries
14 April 2025

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