Baillie Gifford™

China Q2 investment update

July 2025

Investment manager Sophie Earnshaw gives an update on the China Strategy covering Q2 2025.

Your capital is at risk. Past performance is not a guide to future returns.

Sophie Earnshaw: Welcome to the Q2 2025 update for the China Strategy. I'm Sophie Earnshaw, Lead Portfolio Manager.

Despite being at the epicentre of the tariff saga, the Chinese market has exhibited a good level of resilience over the quarter. We think three key supportive factors are playing out: domestic policy support, innovation-led growth, and a gradual recovery in consumption.

First, whilst the headlines are focused on the impact of tariffs on China's GDP, domestic policy and activity is proving far more important to Chinese companies. Indeed, it's important to note that China's retail sales are 10 times larger than its exports to the US.

Most of our holdings derive the majority of their revenue from the domestic Chinese market. And here, we've seen a decisive shift from policymakers to a more pro-growth stance. The portfolio's US exposure is less than 5 per cent after the reductions we made last year. The remaining exposure is concentrated in a couple of holdings, for example, **CATL** and **Midea**. Both are leaders in their respective fields with robust strategies to mitigate tariff risks. So, from a portfolio level, it's really business as usual.

Second, we're seeing grassroots innovation gathering momentum in China. China's internet giants are rapidly adopting and scaling new technologies – the new ABC of China, AI, big data and cloud. We met **Tencent**'s chief strategy officer in our office recently, who shared with us the company's ambition to make WeChat the most powerful AI agent in China. Its mini-programme ecosystem is uniquely positioned to support this. Indeed, 20 million SMEs (Small and Medium-sized Enterprises) have already developed software within it.

We acknowledge competition has been increasing recently in the e-commerce and food delivery space, resulting in weaker share prices. **Pinduoduo** delivered slower earnings growth in the most recent quarter, and **JD** made an aggressive entry into food delivery, going head-to-head against Meituan. We've made reductions to a number of our holdings here, but would note that the addressable market remains very large and the reward for winners substantial.

Chinese manufacturers are also charting their own path at a remarkable speed and scale. It's important for investors to understand what sets China's strategy apart. Innovation works differently in China. It prioritises quantity first, then refines quality, allowing companies to learn quickly and adapt based on customer feedback. We witnessed this iteration in industries across batteries, electric vehicles, industrial automation, and robotics. CATL and Midea are good examples that have contributed to performance.

Last but not least, we're seeing a gradual but steady recovery in domestic consumption. The share of disposable income deposited in savings has begun to decline from the pandemic peak. Consumer preferences continue to evolve, and brand creativity is impressive. Take **PopMart**, for example, a toy designer and a contributor to performance recently. Its toy character, named Labubu, has become a full-blown Gen Z icon globally.

With consumption promotion back at the top of Beijing's economic agenda, further stimulus will have a role to play. Consumer discretionary remains the largest overweight sector within the portfolio.

What ties all of this together is speed, scale, and innovation. So, we're confident in the portfolio's exposure to China's new growth drivers, but we're also aware of what we don't own. The portfolio's underweight in state-owned banks has been a detractor to performance, and we're actively reviewing this sector. Our regular review with the risk team also highlighted that the portfolio is overwhelmingly positioned for an optimistic growth outlook in China. We believe balancing towards a barbell approach may be warranted in this context.

So, during the quarter, we bought two new positions in **Yangtze Power** and **Tianqi Lithium**. Yangtze is a strategically important hydro operator in China, and Tianqi has some of the lowest-cost lithium assets globally. Both positions bring genuinely differentiated exposures to the portfolio whilst also offering double-digit total return.

So, to sum up, we're in a positive frame of mind. China entered 2025 with strong domestic economic policy support, a renewed embrace of private sector-led innovation, and a multifaceted strategy to revive consumption. And we're also fortunate to be able to invest in some very good

Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +44 (0)131 275 2000 / bailliegifford.com

companies. More than one-third of the world's fastest-growing companies are in China, but Chinese equity markets still trade at a 40 per cent discount to their developed market peers.

This is a genuine source of optimism.

China

Annual past performance to 30 June each year (%)

	2021	2022	2023	2024	2025
China Composite (Gross)	51.4	-34.5	-23.5	-10.0	30.6
China Composite (Net)	50.2	-35.0	-24.1	-10.7	29.6
MSCI China All Shares	32.4	-25.4	-17.9	-4.2	27.5

Annualised returns to 30 June 2025 (%)

	1 year	5 years	10 years
China Composite (Gross)	30.6	-2.2	5.4
China Composite (Net)	29.6	-3.0	4.6
MSCI China All Shares	27.5	-0.2	3.1

(MSCI All China prior to 27/11/19, MSCI Golden Dragon Prior to 02/05/19)

Source: Revolution, MSCI. US dollars. Returns have been calculated by reducing the gross return by the highest annual management fee for the composite. 1 year figures are not annualised.

Past performance is not a guide to future returns.

Risk factors

This communication was produced and approved in July 2025 and has not been updated subsequently. It represents views held at the time and may not reflect current thinking.

The views expressed should not be considered as advice or a recommendation to buy, sell or hold a particular investment. They reflect opinion and should not be taken as statements of fact nor should any reliance be placed on them when making investment decisions.

This communication contains information on investments which does not constitute independent research. Accordingly, it is not subject to the protections afforded to independent research, but is classified as advertising under Art 68 of the Financial Services Act ('FinSA') and Baillie Gifford and its staff may have dealt in the investments concerned.

All information is sourced from Baillie Gifford & Co and is current unless otherwise stated.

The images used in this communication are for illustrative purposes only.

Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +44 (0)131 275 2000 / bailliegifford.com

Important information
Baillie Gifford & Co and Baillie Gifford & Co Limited are authorised and regulated by the Financial Conduct Authority (FCA). Baillie Gifford & Co Limited is an Authorised Corporate Director of OEICs.

Baillie Gifford Overseas Limited provides investment management and advisory services to non-UK Professional/Institutional clients only. Baillie Gifford Overseas Limited is wholly owned by Baillie Gifford & Co. Baillie Gifford & Co and Baillie Gifford Overseas Limited are authorised and regulated by the FCA in the UK.

Persons resident or domiciled outside the UK should consult with their professional advisers as to whether they require any governmental or other consents in order to enable them to invest, and with their tax advisers for advice relevant to their own particular circumstances.

Financial intermediaries
This communication is suitable for use of financial intermediaries. Financial intermediaries are solely responsible for any further distribution and Baillie Gifford takes no responsibility for the reliance on this document by any other person who did not receive this document directly from Baillie Gifford.

Europe
Baillie Gifford Investment Management (Europe) Ltd (BGE) is authorised by the Central Bank of Ireland as an AIFM under the AIFM Regulations and as a UCITS management company under the UCITS Regulation. BGE also has regulatory permissions to perform Individual Portfolio Management activities. BGE provides investment management and advisory services to European (excluding UK) segregated clients. BGE has been appointed as UCITS management company to the following UCITS umbrella company; Baillie Gifford Worldwide Funds plc. BGE is a wholly owned subsidiary of Baillie Gifford Overseas Limited, which is wholly owned by Baillie Gifford & Co. Baillie Gifford Overseas Limited and Baillie Gifford & Co are authorised and regulated in the UK by the Financial Conduct Authority.

Hong Kong
Baillie Gifford Asia (Hong Kong) Limited 柏基亞洲(香港)有限公司 is wholly owned by Baillie Gifford Overseas Limited and holds a Type 1 license from the Securities & Futures Commission of Hong Kong to market and distribute Baillie Gifford's range of collective investment schemes to professional investors in Hong Kong. Baillie Gifford Asia (Hong Kong) Limited 柏基亞洲(香港)有限公司 can be contacted at Suites 2713-2715, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. Telephone +852 3756 5700.

South Korea
Baillie Gifford Overseas Limited is licensed with the Financial Services Commission in South Korea as a cross border Discretionary Investment Manager and Non-discretionary Investment Adviser.

Japan
Mitsubishi UFJ Baillie Gifford Asset Management Limited ('MUBGAM') is a joint venture company between Mitsubishi UFJ Trust & Banking Corporation and Baillie Gifford Overseas Limited. MUBGAM is authorised and regulated by the Financial Conduct Authority.

Australia
Baillie Gifford Overseas Limited (ARBN 118 567 178) is registered as a foreign company under the Corporations Act 2001 (Cth) and holds Foreign Australian Financial Services Licence No 528911. This material is provided to you on the basis that you are a "wholesale client" within the meaning of section 761G of the Corporations Act 2001 (Cth) ("Corporations Act"). Please advise Baillie Gifford Overseas Limited immediately if you are not a wholesale client. In no circumstances may this material be made available to a "retail client" within the meaning of section 761G of the Corporations Act.

This material contains general information only. It does not take into account any person's objectives, financial situation or needs.

South Africa
Baillie Gifford Overseas Limited is registered as a Foreign Financial Services Provider with the Financial Sector Conduct Authority in South Africa.

North America
Baillie Gifford International LLC is wholly owned by Baillie Gifford Overseas Limited; it was formed in Delaware in 2005 and is registered with the SEC. It is the legal entity through which Baillie Gifford Overseas Limited provides client service and marketing functions in North America. Baillie Gifford Overseas Limited is registered with the SEC in the United States of America.

The Manager is not resident in Canada, its head office and principal place of business is in Edinburgh, Scotland. Baillie Gifford Overseas Limited is regulated in Canada as a portfolio manager and exempt market dealer with the Ontario Securities Commission ('OSC'). Its portfolio manager licence is currently passported into Alberta, Quebec, Saskatchewan, Manitoba and Newfoundland & Labrador whereas the exempt market dealer licence is passported across all Canadian provinces and territories. Baillie Gifford International LLC is regulated by the OSC as an exempt market and its licence is passported across all Canadian provinces and territories. Baillie Gifford Investment Management (Europe) Limited ('BGE') relies on the International Investment Fund Manager Exemption in the provinces of Ontario and Quebec.

Israel
Baillie Gifford Overseas Limited is not licensed under Israel's Regulation of Investment Advising, Investment Marketing and Portfolio Management Law, 5755-1995 (the Advice Law) and does not carry insurance pursuant to the Advice Law. This material is only intended for those categories of Israeli residents who are qualified clients listed on the First Addendum to the Advice Law.

Singapore

Baillie Gifford Asia (Singapore) Private Limited is wholly owned by Baillie Gifford Overseas Limited and is regulated by the Monetary Authority of Singapore as a holder of a capital markets services licence to conduct fund management activities for institutional investors and accredited investors in Singapore. Baillie Gifford Overseas Limited, as a foreign related corporation of Baillie Gifford Asia (Singapore) Private Limited, has entered into a cross-border business arrangement with Baillie Gifford Asia (Singapore) Private Limited, and shall be relying upon the exemption under regulation 4 of the Securities and Futures (Exemption for Cross-Border Arrangements) (Foreign Related Corporations) Regulations 2021 which enables both Baillie Gifford Overseas Limited and Baillie Gifford Asia (Singapore) Private Limited to market the full range of segregated mandate services to institutional investors and accredited investors in Singapore.

Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +44 (0)131 275 2000 / bailliegifford.com