

Your capital is at risk. Past performance is not a guide to future returns. The following update is based on a representative portfolio. As such, stock examples may not be held in every client portfolio, and performance may differ.

Linda Lin: Chinese stocks are up sharply this year, ahead of most major markets. Few would have predicted that at the beginning of the year, especially with headlines dominated by trade tensions. We invest with a multi-year lens, but I think it's worth asking, 'what's really going on'? Part of it is perception adjusting to reality.

While the news flow tends to focus on tariffs, it is very important to remember that most Chinese companies earn most of their revenues at home. And China's retail sales are ten times larger than its exports to the US. So the domestic activities and policies matter the most.

Moreover, China did appear to weather the trade negotiations better than many had expected. Uncertainties remain, but there are signs of progress. I'm sure you read the news, but a deal on TikTok appears close, and it looks like Presidents Trump and Xi may meet at the APEC summit at the end of October.

Our China Strategy has delivered strong absolute and relative returns both over the quarter and year to date.

So what is driving the rally, and where is our focus?

Domestically, it's about two 'AI's - Anti-Involution and Artificial Intelligence. I think both are important but have different implications.

So the first term is called 'involution', or 'Nei Juan', originally meant cut-throat academic pressure at school. Now, it's used to describe the intensive price competition through discounts. So in recent quarters, we see the policymakers launch an 'anti-involution' campaign, openly criticising destructive price wars in sectors like EV, semiconductors, as you probably know food delivery.

In practice, real intervention is probably very limited. But this marks an important stance changing from the previous model of 'growth at any cost'. So it should ultimately support profits, industry structure and equity return.

On the other hand, the build-out of conventional AI is accelerating. Nearly 4000 generative AI tools have been registered in China since the emergence of DeepSeek in January. Among out largest private holdings like Bytedance, Alibaba and Tencent, we see they are widely adopting AI to improve their business, including improving advertising efficiency, e-commerce conversion rate and cloud usage.

Unlike the US, Chinese AI-related companies occupy a much smaller share of its equity markets. This segment, I think, has significant potential for upsides, and our strategy has substantial exposure to it.

So overall, the macro remains uneven – the service-based consumption is rebuilding, while goods demand is still staying soft, and the property remains a drag. However, the structural force that matters to stock pickers like us, is heading in the right direction. So China is moving up the value chain: in semiconductors, autos, advanced machinery, and also the growing presence of Chinese consumer brands overseas. So at home, the local champions in sportswear, premium consumer and food are taking share. It is not a straight line, but the direction of travel is crystal clear.

Against this backdrop, several of our holdings, including optical transceiver company called Zhongji Innolight and the leading battery maker CATL, have added to performance. On the other hand, China Merchant Bank faced a tougher backdrop of low-interest-rate environment, and Pop Mart also paused after a powerful rally at its IP toy gains global popularity.

So over the quarter, we added a few new holdings, including Trip.com, the largest online travel company in China; H World, a hotel brand; and also Didi, China's dominant ride-hailing operator. So Chinese consumers are shifting toward service and experience after the pandemic, and all three new holdings could benefit from that trend. These sit alongside our larger overweight to the 'consumer AI' stack through our platform holding companies.

In summary, we remain in a positive frame of mind. This is not because of the short-term market strength, but more because of our passion for the long-term potential of some very interesting Chinese companies. It may come as a surprise that Bytedance's quarterly revenue has already passed Meta and Xiaomi has outperformed Apple in the last 5 years. For our key holding CATL, since its IPO in 2018, it has also outperformed Telsa. So those are good reminders of what can happen in China, when innovation meets scale.

China

Annual past performance to 30 September each year (%)

| | 2021 | 2022 | 2023 | 2024 | 2025 |
|-------------------------|------|-------|------|------|------|
| China Composite (Gross) | 3.4 | -37.9 | -3.4 | 15.8 | 31.6 |
| China Composite (Net) | 2.5 | -38.4 | -4.1 | 14.9 | 30.5 |
| MSCI China All Shares | 1.4 | -31.6 | 0.6 | 20.6 | 25.5 |

Annualised returns to 30 September 2025 (%)

| | 1 year | 5 years | 10 years |
|-------------------------|--------|---------|----------|
| China Composite (Gross) | 31.6 | -1.1 | 10.1 |
| China Composite (Net) | 30.5 | -1.9 | 9.2 |
| MSCI China All Shares | 25.5 | 1.1 | 7.4 |

(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.

Legal notice: MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indexes or any securities or financial products. This report is not approved, endorsed, reviewed or produced by MSCI. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

Risk factors

This communication was produced and approved in October 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.

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 license is currently passported into Alberta, Quebec, Saskatchewan, Manitoba and Newfoundland & Labrador whereas the exempt market dealer license is passported across all Canadian provinces and territories.

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.