Baillie Gifford

Pacific Horizon Investment Trust: manager insights

November 2023

Investment manager Roderick Snell discusses why, despite recent performance struggles due to inflation, interest rates and geopolitical tensions, we believe the long-term outlook for investing in Asia remains promising.

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

Hello, I'm Roderick Snell, manager of Pacific Horizon, and I'm going to provide you with an update of the Trust, including our current outlook for the region, what we have been doing over the last full year's reporting period and performance.

Outlook

So, starting with our outlook, it's certainly been a challenging period for Asia ex Japan. However, for some time we have been highlighting four key reasons why Asian economies are generally far better positioned than in the past, especially when compared to developed markets. These are:

1. Firstly, because Asian balance sheets are in superior shape having lacked the profligate monetary and fiscal stimulus of the West, especially during Covid.

2. Secondly, most of Asia has maintained positive rates for many years, while Western markets have, for years, operated with ultra-low or even negative interest rates.

3. Thirdly, there are no significant inflationary pressures across the region.

4. And finally, capital flows into Asia have been negative for a decade, and the region therefore less likely and vulnerable to money outflows than in the past.

Portfolio update

The result is that today, Asia's financial position is superior to much of the developed world. Combine this with Asia's structurally faster growth rates and valuations at multi-year lows relative to developed markets, and the long-term outlook for Asian investors looks very encouraging.

This, however, has not been reflected in the performance of Asian markets to date, with China the key concern among investors.

Now, whilst we acknowledge the country faces several headwinds, including increasing geopolitical tensions, we believe fears of an imminent collapse of the economy are misplaced. In particular, the government has clearly moved to support the domestic economy and private companies; the regulatory crackdown on the technology sector has receded; and escalating fears over the domestic property market appear overly pessimistic. Combined with extremely depressed valuations, we have been finding a number of investment opportunities in the country, mainly focused on technology- and consumer-related companies, such as Baidu and Alibaba.

Outside China, we continue to believe Vietnam remains the best structural growth story of any Asian economy, driven by its successful export manufacturing base. After a period of significant market weakness, driven by a corruption clampdown and funding issues in the property sector, we took advantage of share price weakness by adding to our existing holding in Vinh Hoan, a food processor, and made two new purchases: Mobile World, one of the country's leading electronics and grocery retailers, and FPT, Vietnam's largest IT outsourcing company.

Funding came from three main sources:

1. Firstly, reductions to India where some valuations were looking too expensive;

2. Secondly, reducing a number of our smaller holdings in South Korea including battery and cloud computing companies;

3. And finally, a reduction to our Indonesian nickel companies, where we have concerns that new processing technologies will bring significantly more battery-grade nickel to the market than investors are expecting.

By sectors, it's important to note that what defines us is growth. We want to be invested in the fastest-growing Asian companies over the next decade. However, we are happy to embrace growth in all of its forms. As such we have significant positions in both cyclical growth, particularly in materials and industrials, and secular growth, including technology and consumer companies.

It is noteworthy that over the next year our holdings on average are valued at nearly the same price-to-earnings multiple as that of the comparative index, yet they are expected to grow their earnings at nearly triple the rate.

Performance

In terms of performance, as long-term growth investors, it is pleasing that over the past 3 and 5 years our portfolio has generated significant value for shareholders. More recent periods have, however, been more challenging, as our growth style has faced numerous headwinds, including soaring inflation and interest rates. This has been combined with generally poor Asian markets, held back by increasing geopolitical tensions, weakness in China and a surging US Dollar syphoning liquidity from the region.

Our portfolio maintains a strong growth bias, and we have faith in the long-term growth prospects of the region and believe we are well-placed to add significant value for shareholders should Asian markets turn.

Looking forward

So to conclude, we remain extremely positive on the long-term outlook for the region. Asia has already taken up the baton of global growth, with China alone having contributed more to global growth in US dollar terms than the US over the past decade, while India is overtaking Japan. Asia is now better positioned financially than much of the developed world, and with a renewed investment cycle unfolding, we believe Asian growth is likely to significantly outperform over the coming years.

Annual past performance to 30 September each year (net %)

	2019	2020	2021	2022	2023
Baillie Gifford Pacific Horizon Investment Trust PLC	-4.1	85.0	51.3	-32.8	-6.8
NAV	3.0	60.1	48.1	-19.9	-4.7
MSCI All Country Asia ex Japan Index	2.5	12.6	10.0	-13.6	1.8

Source: Morningstar and MSCI. Share price, total return, sterling. Returns reflect the annual charges but exclude any initial charge paid.

Past performance is not a guide to future returns.

Important information and risk factors

This film was produced and approved in November 2023 and has not been updated subsequently. It represents views held at the time and may not reflect current thinking.

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The specific risks associated with the **Pacific Horizon Investment Trust** include:

- The Trust 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.

- The Trust invests in emerging markets where difficulties in dealing, settlement and custody could arise, resulting in a negative impact on the value of your investment.

- The Trust invests in China, often through contractual structures that are complex and could be open to challenge, where potential issues with market volatility, political and economic instability including the risk of market shutdown, trading, liquidity, settlement, corporate governance, regulation, legislation and taxation could arise, resulting in a negative impact on the value of your investment.

- Unlisted investments such as private companies can increase risk. These assets may be more difficult to sell, so changes in their prices may be greater.

- The Trust can borrow money to make further investments (sometimes known as "gearing" or "leverage"). The risk is that when this money is repaid by the Trust, the value of the investments may not be enough to cover the borrowing and interest costs, and the Trust will make a loss. If the Trust's investments fall in value, any invested borrowings will increase the amount of this loss.

- 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 Trust might receive upon their sale.

- The Trust can make use of derivatives which may impact on its performance.

- 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.

- The Trust can buy back its own shares. The risks from borrowing, referred to above, are increased when a trust buys back its own shares.

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

Further details of the risks associated with investing in the Trust, including a Key Information Document and how charges are applied, can be found in the Trust specific pages at **www.bailliegifford.com**, or by calling Baillie Gifford on **0800 917 2112**.

Chile

In Chile (i) La presente oferta se acoge a la Norma de Carácter General N° 336 de la Comisión para el Mercado Financiero (CMF) de Chile. (ii) La presente oferta versa sobre valores no inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la Comisión para el Mercado Financiero, por lo que los valores sobre los cuales ésta versa, no están sujetos a su fiscalización; (iii) Que por tratarse de valores no inscritos, no existe la obligación por parte del emisor de entregar en Chile información pública respecto de estos valores; y (iv) Estos valores no podrán ser objeto de oferta pública mientras no sean inscritos en el Registro de Valores correspondiente.

Colombia

The securities have not been, and will not be, registered with the Colombian National Registry of Securities and Issuers (Registro Nacional de Valores y Emisores) or traded on the Colombian Stock Exchange (Bolsa de Valores de Colombia). Unless so registered, the securities may not be publicly offered in Colombia or traded on the Colombian Stock Exchange. The investor acknowledges that certain Colombian laws and regulations (including but not limited to foreign exchange and tax regulations) may apply in connection with the investment in the securities and represents that it is the sole liable party for full compliance therewith.

Peru

The Fund has not and will not be registered in the Public Registry of the Capital Market (Registro Público del Mercado de Valores) regulated by the Superintendency of the Capital Market (Superintendencia del Mercado de Valores – "SMV"). Therefore, neither this document, nor any other document related to the program has been submitted to or reviewed by the SMV. The Fund will be placed through a private offer aimed exclusively at institutional investors. Persons and/or entities that do not qualify as institutional investors should refrain from participating in the private offering of the Fund.

Mexico

In Mexico the Fund has not and will not be registered in the National Registry of Securities maintained by the National Banking and Securities Commission, and therefore may not be offered or sold publically in Mexico. The Fund may be offered or sold to qualified and institutional investors in Mexico, pursuant to the private placement exemption set forth under Article 8 of the Securities Market Law as part of a private offer.

Information on the relevant LATAM funds is available on request. Please contact
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