Baillie Gifford™

Upfront: private companies, China and Scottish Mortgage

July 2025

Host Cherry Reynard talks to investment specialist Chloé Darling-Stewart about Scottish Mortgage and investment manager Linda Lin explains why China is set for future growth. Ben James, investment specialist, tells us why Cloudflare is protecting internet users.

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

Cherry Reynard (CR): Good morning. I'm Cherry Reynard, your host for Upfront, where we bring you the latest insights on Baillie Gifford's UK funds. Today I'm speaking with Baillie Gifford partner Linda Lin, who'll be answering your questions live. So, do send them in by clicking on the dropdown menu on your screen. Before the audience questions, we have investment specialist director Ben James talking on Cloudflare, the armour shielding over 20 million websites from malicious attacks. Welcome to Upfront.

Hi, Chloé, and welcome to the programme. Now, to introduce you to those watching, Chloé is a product specialist for Scottish Mortgage, which is Baillie Gifford's flagship global investment trust. So, Chloé, if we could begin by looking at the portfolio's current exposure. There's obviously an awful lot going on, from escalating trade tariffs, to trade wars, to geopolitical tensions. What kind of challenges are you seeing on a portfolio or company level?

Chloé Darling-Stewart (CDS): Well, hi, Cherry. I think when it comes to geopolitics and tariffs more broadly, this is clearly a fluid and fast-moving environment, so I'd caution against coming to any firm conclusions. But it's safe to say that few companies will be immune from a reordering of the global trade regime. We've been focusing on how companies are responding to this. Are they absorbing the cost themselves, potentially compressing margins, or are they passing these costs through to their consumers, which might lead to some price inflation? And adaptability is a big part of how we assess the resilience of these businesses.

And in this type of environment that's defined by unpredictability, resilience isn't a nice-to-have or a secondary virtue. It is absolutely critical to long-term success. And, crucially, we don't think that these geopolitical pressures will derail some of the multi-decade deep structural changes that are already underway, things like the rise of AI, the digitisation of finance, the energy transition, all of which Scottish Mortgage has exposure to.

And as it stands, we believe that Scottish Mortgage is entering this environment from a position of strength and that the portfolio is robust. And some of the proof points behind that. Our public companies, 80% of them are generating free cash flow. On the private side, 70% are cash generative. And then honing in on that top ten, nine out of ten are net cash with an average topline growth of about 30%. And in that context, the trust is performing well as well.

So, albeit it's very short-term, the trust is top quartile over the year and six months, and the long-term returns are strong too. So, the ten-year cumulative portfolio returns are 320% versus the benchmark's 180%.

CR: Okay, great. Now, I know that Scottish Mortgage is very much a bottom-up rather than a top-down approach. But what does the regional breakdown of the fund look like at the moment?

CDS: Sure. So, Cherry, our approach allows us to find and invest in what we believe are the most transformational growth companies from across the world, irrespective of their market capital or where they're based. So, if you look at our top ten holdings, you'll see the likes of Ferrari, which is arguably the world's most iconic and recognisable brand, at the frontier of engineering and luxury. There's also Mercado Libre, which is operating the largest payments in ecommerce platform in Latin America, with about 100 million users. Or fly over to TSMC, which is the world's largest independent semiconductor foundry.

But you're right when you say that our approach is very much bottom-up and driven by stock selection, and our regional allocations are an output of that. So, at the moment, our US holdings are about 52% of the portfolio, and that's ticked down recently as we have reduced our exposure in Nvidia and Tesla. Then, in emerging markets, it's about 30%, and specifically within that our Chinese exposure is about 14%. And, interestingly, that's about 10% overweight to the benchmark, albeit we don't typically talk in those terms, but that exposure has been ticking up over the last year. And then elsewhere, we have about 15% in Europe and 3% in the UK.

CR: Okay, great. Now, private companies have obviously been a really important part of the portfolio historically. What's the allocation there at the moment?

CDS: Scottish Mortgage has the ability to hold up to 30% of the portfolio in private companies, and that's sitting at about 25% just now. And within that, we hold six of the world's ten most valuable unicorns, and the largest position is SpaceX, which is about a 7% holding in the portfolio at the moment. And when we first invested, SpaceX was worth about $30 billion. It's now worth about $350 billion, so remarkable progress there.

And then elsewhere in the private companies, we've recently participated in the funding round for Databricks, which valued the company at $62 billion, making it one of the world's most valuable companies. And Databricks is helping companies to modernise their data and their AI infrastructure, and this round will really allow them to lean into product development, international acquisitions and give them some employee liquidity.

CR: Okay, great. Now, a question that we had submitted in advance of the programme was asking about valuations in private companies. I wonder if you could unpack that a little.

CDS: Absolutely. It's a really important question. So, at Baillie Gifford we have a well-resourced and independent valuations team, which have a rigorous approach to valuations that our investors can trust. We aim to take a proactive approach to valuations and aim to hold companies at fair value. Essentially, the price you would pay in an open market transaction. So our valuations team are monitoring that on an ongoing and continual basis.

But taking a step back, the concept of a valuation lag is well recognised in the industry, where, essentially, private companies are valued on the basis of transactions. And that's the usual trigger. However, we feel that for a publicly traded, daily traded fund like Scottish Mortgage, that feels a bit inadequate, so we aim to be a bit more proactive than that. So, in the recent volatility, we've gone ahead and refreshed those valuations to ensure it's more relevant.

CR: Okay, great. Now, you mentioned SpaceX there, which is the trust's largest private holding. Obviously, we saw footage of the Starship's failed launch last week. And Elon Must makes the news every now and then. I wonder if you could provide us with an update on SpaceX.

CDS: Sure. SpaceX is radically transforming space logistics and global connectivity. They operate in two main markets, satellite internet and rocket launches. On the satellite internet, Starlink is their business there. They've expanded rapidly over the last year, having doubled their number of subscribers to five million subscribers, which is really remarkable progress. Then on the rocket launch side, SpaceX has made a record-breaking number of launches in the last year, so had something like 138 trips to orbit last year.

But you're right to say about that failed test. And, as strange as it is to say it, this is part of their plan. This is part of their strategy. SpaceX have this incredible culture of really pushing the boundaries and innovating at a pace that others simply can't match. And as part of that, failure is expected and part of that strategy. They're looking to really engineer at the edge and, essentially, fail forward.

And then finally, on Musk. We recognise that founders with deep intelligence will often have a temperamental side, so we have to take a step back and recognise what it is these founders are looking to achieve through their businesses. And Elon Musk has demonstrated an extraordinary ability to execute on his vision, and our role as investors is to really weigh up the opportunities and risks that present themselves in these investments. And despite some of the complexities of his public persona and public profile, Musk has demonstrated a clear ability to lead transformational growth companies. And over the long term, our shareholders have benefitted from Tesla and SpaceX's remarkable progress.

CR: Yes, absolutely. Now, one final question before I let you go, and staying with private companies. Have you made any new purchases recently?

CDS: Yes. We're really excited about our new holding in Revolut, which is valued at $45 billion, making it one of the world's most valuable private technology companies. And it's really the changing the way that we think about banking. So, rather than having an app for saving, another for crypto, another for your exchange, Revolut packages this up into one easy-to-use platform. They already have over 50 million customers across 40 countries, and they're just getting started. And for us, this is a terrific example of the type of ambitious, tech-driven companies that are reshaping the future of finance.

CR: Okay, great. Brilliant. We'll wrap up there. Thank you so much for joining us today. Thanks, Chloé. Now, for those of you watching live, if you have any questions, simply click on the Ask a Question tab. Now, as part of each programme, we feature an in-depth look at some of the transformational companies Baillie Gifford invests in. Today we're learning about Cloudflare, a company making your internet connection safer and a whole lot faster.

Ben James (BJ): We've come a long way since the World Wide Web first launched in the mid-90s. it was a real game-changer for sharing information, but it was really slow and vulnerable to hackers. Thankfully, the internet is much faster today, but unfortunately, online threats have multiplied, which is where Cloudflare comes in. Founded in 2009, its first product used innovative computer programs to track and stop hackers, and since then it's grown to become critical digital infrastructure for nearly a quarter of all internet traffic.

The company focusses on making the internet faster, more secure and more reliable for businesses of all sizes. It sees itself as the fabric that stitches all the different cloud computer providers together for its customers. What truly excites us about Cloudflare is its unique approach to solving complex internet challenges. While most companies view internet security as a cost centre, Cloudflare sees it as an opportunity for innovation. Its differentiator is a global network that turns traditional cybersecurity on its head. Instead of building higher walls, it's fundamentally reimagining how digital infrastructure can work.

Our conviction comes from its ability to solve problems other companies can't. Cloudflare's platform uses edge computing. Instead of computer processes being done in a centralised data centre miles away from the user, which takes time, Cloudflare's network allows businesses to run sophisticated applications closer to end users, reducing latency and improving performance. This isn't just an incremental improvement. It's a fundamental shift in how internet services can be delivered.

The future is really promising. Cloudflare's Workers AI platform is positioning itself as a critical solution for deploying AI applications. It allows companies to run complex computations closer to where data is generated. Cloudflare's very flexible low-cost distributed network appears to have an advantage here, in what is a potentially massive opportunity. As cyberthreats become more sophisticated, Cloudflare's holistic approach to security, protecting not just against attacks but improving overall digital performance, gives it a significant competitive advantage.

As more businesses globally digitise, Cloudflare's international network becomes increasingly valuable, offering seamless, secure digital experiences across different regions and technological environments. Cloudflare isn't just adapting to the future, it's actively creating it. We believe this makes it a compelling long-term investment in the digital infrastructure landscape.

CR: That was investment specialist director Ben James introducing Cloudflare, who just recently prevented the largest DDoS attack ever on record. The attackers tried to flood a network with over 37 terabytes of data. Now, to put that into context, that's like disrupting 30,000 households' broadband, and in less time than it takes to make a cup of tea. That just shows how important companies like Cloudflare are to keeping us all protected online. Now, to move on, we're joined by Linda Lin for a fund update. Now, to briefly introduce you to those watching, you've been with Baillie Gifford since 2014. You're head of the Chinese Equities team and have been a partner in the firm since 2022. I wonder if you can tell me a bit more about Chinese equities at Baillie Gifford.

Linda Lin (LL): Sure. I think in Chinese Equities, we have two products. One is for all China, and the other one is focussing on the local market, the China A-Share Fund.

CR: Okay, great. Now, Baillie Gifford has a lengthy history of investing in Chinese equities. However, many investors are still wary of standalone Chinese equity exposure, whether from a macroeconomic or a geopolitical standpoint. And some will even go as far as to say it's uninvestable. How do you respond to that?

LL: Firstly, I think this is a very fair question to ask because the story we often see on social media in Western countries is about China's lagging property market, weak consumer confidence, and also the rising tension between US and China. So, if we're focussing on that story, that actually pens a very negative story for growth, and it seems like it's a very hard market to invest. And indeed, the Chinese equity market did, I think, underperform the global equity market for quite some time.

But there's another side to the story as investors on the ground we're seeing actually every day. It's a story about transformation. And that's a story about China leading the global manufacturing space, accounting for more than a third of total output, and that's a story about China leading the global EV, clean energy and artificial intelligence space. So, that's a story actually trying to tell us that's innovation and reinvention. And indeed, actually the Chinese equity market was one of the best performing markets in 2024. And for our China Growth Trust for example, till the end of March 2025, we generated I think more than 40% return for our clients.

So I think both stories are real. But for growth investors like us, we think the second story is more important because in this period of transformation, China may generate a new group of growth companies for our clients. And also, I understand the concern that if an investor gives up China, that means they give up a third of global growth companies, which are trading at about a 45% discount. I think sometimes this is not only about consideration of the geopolitical race, but also this is an opportunity cost you need to bear with.

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

CR: Yes, absolutely. And to focus in on the improvement in the Chinese stock market that you mentioned there, do you see that as a short-term bounce or is it an indication of a more long-term sustainable recovery, after what's been really quite a brutal selloff?

LL: Yes, sure. I think we are at the early stage of a long-term sustainable recovery of the Chinese equity market. Let me break down several reasons here. I think, firstly, growth is important to the Chinese government. And I'm sure you have seen Beijing launched a very aggressive stimulus package since September last year. And from the physical package perspective, I think this is the largest package I have seen since the global financial crisis. So, the government is keen to bring the economy back to growth.

And secondly, who is driving that growth? I think this is a very important message to private companies in China. I'm sure you saw the news in January, President Xi met a group of very important entrepreneurs in China, including, for example, the DeepSeek founder and also the founder of Alibaba, Jack Ma. So, this is a very important message the government wants to send to the public. They want growth companies back on the stage.

And moving to the third part, which is the property market and consumer confidence. For the property market, the data we're seeing, actually the volume is picking back up in the top tier cities and the price is trading to stable. So, that is really important to consumer confidence in China because more than 75% of family wealth is linked to the property market. So, Chinese consumers now have lots of capital saved in their bank accounts. How much have they saved? I think they've saved around $9 trillion US since the global pandemic, which is twice the UK's GDP. I think once the property market stabilises, I think consumer confidence will pick up back to the normal state, but it would say it's not picking back up in the V shape.

And lastly, which I think is the most important factor, is company fundamentals. If you look at our China Trust portfolio, you can see a very strong earnings growth coming back. For example, the technology company we have been talking about, they actually doubled their profitability since 2021 while all their market actually halved. So I think that's all the reasons I want to put together that growth is coming back in China.

CR: Yes, absolutely. I wonder if you could give a real-world example of that kind of innovation in action.

LL: Yes. I think innovation in China is majorly driven by private companies, and I'm sure you've read the news about how AI is impacting the world. I think AI is transforming every industry in China after DeepSeek. It's in autonomous driving, it's in robotics, it's in advertising, it's in gaming. So, yes, I think China is all in on AI, and we feel quite excited to see the innovation in those areas.

CR: Absolutely. Now, one of the criticisms that is aimed at Chinese companies is that they're kind of inferior copies of Western companies. Do you think that is still fair, or do you think that looks like a rather outdated view now?

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

LL: Yes. I think that's a story in the past, but, to be very honest, that's also the story I think most investors still believe in. If you look into the details, I think private companies in China are spending more and more R&D in technology and they are becoming more and more technology focused. So, like the very expensive I think monopoly story across history, I think you can see that Chinese companies are challenging those leading US technology companies. For example, Huawei is challenging Apple in high-end smartphones. ByteDance is challenging Facebook. As well as BYD, I'm sure you see their cars in the UK, it actually is challenging Tesla. And OpenAI, what we see in the news every day, DeepSeek actually is providing a much cheaper model which is challenging the dominant players in the US.

So, that is telling us that Chinese companies are not following those US leaders. They actually want to lead the next wave of rise and they want to be global leaders. And I would like to emphasise how important private companies are for this transformation. They account for more than 75% of the innovation and also provide 85% of the jobs. So, if the Chinese government wants growth back in the economy, the innovation is driven by the private company leaders.

CR: Absolutely. Are there any other companies you'd highlight as this kind of next generation of global winners potentially?

LL: Yes. I think I'd like to use two examples here. I think, one, I'm sure I mentioned BYD, which you can see are not only the Chinese champions. Actually, they are expanding to other countries like the UK. And I think for EV cars we're thinking about today, it's not only transportation. It's actually another category of robotics. I think autonomous driving is evolving very fast in China. I'm sure they would bring that technology to global markets.

CR: Yes, absolutely. Now, finally, we should just explore the ramifications of DeepSeek. This Chinese AI model had a seismic impact on markets when it came in earlier this year. Does it change much for the companies in which you invest? Does it unlock new opportunities?

LL: Yes. I think I would like to firstly give some background information. China did have some restrictions on AI chips from the US in the last few years. Before DeepSeek, people were worrying that China would lag behind the US in terms of large language models and AI applications. So, DeepSeek is a game-changer. It actually proved China can use existing AI infrastructure to produce a much more efficient and cheaper large language model.

And I'm just back from China last month, and I was amazed to hear about companies in different industries talking about how to use DeepSeek, not only Tencent, not only Alibaba, talking about how to use DeepSeek in their gaming, in their advertising. Also, we see traditional manufacturers are trying to think about how to use DeepSeek in their daily manufacturing space. For example, one of the portfolio companies we own is CoreMedia. They told us they can use a fully automated supply chain to produce a washing machine in 50 seconds. I was really keen to see, after using DeepSeek, what efficiency they probably can improve.

So, that's on the large language model level, but we also see the application level actually is ramping up very quickly. But I would like to bring us to a deeper thinking about the AI race between the US and China. I think we are running a marathon. And what's behind the AI space, actually energy costs are really important. For example, nowadays China energy costs only I think 45% of what the US costs. So, if we are riding this wave of AI applications, how much more energy are we going to use in the global space? So, as we mentioned, China is leading in clean energy. We mentioned BYD. Also, we have CATL, the largest battery and energy storage business globally. I was in one of their new data centres. Basically, they use a whole new energy solution to build the next generation of AI data centres.

So, AI for me is not only about large language models. It's about AI, plus application, plus clean energy, for the next few decades. So I think we are excited to see who is going to be the next wave of AI agents in China. Is it still Tencent and ByteDance? We'll probably have new names coming to the table.

CR: Great. Fascinating. Okay, thanks so much, Linda. Now to answer the questions that have been coming in over the programme. Obviously, the Chinese stock market has been a little up and down over the past few years. A question here. Do you think you've put the poor performance in recent years behind you, and what have you learned from those periods of disappointing returns?

LL: Yes. If you look at the period of underperformance, it started from 2021 to 2023. That period of Chinese growth was under a lot of challenge, which I explained. Domestic regulation, consumer confidence challenges, and also the US-China tension. But I think most of the headwinds became a tailwind. So, growth is back to the stage.

If you look at the relative performance of the growth style, actually, during the very challenging period of time the China Growth Trust still outperformed in the growth style. But I think the underperformance during that period of time, we saw who actually outperformed was SOE companies in China and also, I think value style was outperforming the growth. So, I did explain, we have a strong belief that growth is back on the table for the Chinese economy. So, if we are focussing on finding the next generation of growth companies in China for our clients, I think our performance, well, like I said, again, we're having a good inflection point and will have a long-term sustainable recovery.

CR: Okay, great. Next one. Active share is quite low for a Baillie Gifford fund. Why is that?

LL: Yes, I think if you look at the China Only compared to our global strategies, the active share is lower than the global portfolios. But if you look at our index, which is MSCI China, in the index most of the largest weighting companies are from SOEs or from banking, traditional finance and the energy sectors. So, we did underweight those sectors very significantly. And also, like we said, again, China Growth Trust, we are focussing on growth companies from the private space. I think actually we in the portfolio have more than 90% of companies from the private space. So I think that's more important, where we're looking into the active shares rather than just focusing on the index comparison.

CR: Okay, great. And then the final question is actually on those private companies. In terms of private companies that wish to go public, where is the preference to list at the moment? Do Chinese companies want to list domestically?

LL: Yes. If you think about domestically, I think there are two ways to look at this. One is domestically, which is Shanghai and Shenzhen, which are China Asia, and another one is Hong Kong. I think Hong Kong nowadays is becoming a very important space for Chinese companies to be listed and attract global investors. I think from the regulatory perspective, it's very clear they want Hong Kong to be the Nasdaq of China. They want all the technology leaders and innovative private companies to be listed in Hong Kong. And recently, the largest IPO in Hong Kong actually is from our portfolio company CATL. I think they raised about $5 billion US in the Hong Kong IPO market. So, for us, we see that's a very good signal for global investor interest coming back to China. And I think by the end of 2024, we saw actually we had a net inflow of global investors to China. I think that's a very important message for us.

CR: Okay, great. We will wrap up there. Thank you so much for joining us today, Linda.

LL: Thanks, Cherry.

CR: And thank you all for joining us as well. To find out more about the topics we've discussed on the programme, please do go to the website, bailliegifford.com. The UK Intermediaries team are here to help. So, get in touch if you have any questions. Until next time, goodbye.

Scottish Mortgage Investment Trust PLC

Annual discrete performance to 31 March each year

	2021	2022	2023	2024	2025
Share price (%)	99.0	-9.5	-33.6	32.5	6.0
Net asset value (%)	111.2	-13.2	-17.8	11.5	11.4
Index* (%)	39.6	12.8	-0.9	21.0	5.5

Source: Morningstar, FTSE. Total return in sterling. *FTSE All-World Index.

Baillie Gifford China Growth Trust plc

Annual discrete performance to 31 March each year

	2021	2022	2023	2024	2025
Share price (%)	53.0	-32.7	-12.8	-26.0	39.7
Net asset value (%)	42.3	-28.2	-4.7	-27.1	38.1
Index* (%)	27.3	-20.5	-0.2	-18.2	26.1

Source: Morningstar, MSCI. Total return in sterling. *Changed from MSCI AC Asia ex Pacific Index to MSCI China All Shares Index on 16/09/20. Data chain-linked from this date to form a single comparative index.

Past performance is not a guide for future returns.

Important information and risk factors

This recording was produced in June 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.

Baillie Gifford & Co Limited is wholly owned by Baillie Gifford & Co. Both companies are authorised and regulated by the Financial Conduct Authority and are based at: Calton Square, 1 Greenside Row, Edinburgh EH1 3AN.

The investment trusts managed by Baillie Gifford & Co Limited are listed on the London Stock Exchange and are not authorised or regulated by the Financial Conduct Authority.

Investment markets can go down as well as up and market conditions can change rapidly.

Investments with exposure to overseas securities can be affected by changing stock market conditions and currency exchange rates.

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

Scottish Mortgage has a significant investment in private companies. The Trust's risk could be increased as these assets may be more difficult to sell, so changes in their prices may be greater.

The Baillie Gifford China Growth Trust invests in China, 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. Investments in China are often through contractual structures that are complex and could be open to challenge. The Trust's exposure to a single market and currency may increase risk.

A Key Information Document is available by visiting bailliegifford.com

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