Hello and welcome to this programme from Baillie Gifford, the latest in the series where we talk to the fund managers of the group's different investment trusts. Today, we're talking to Sophie Earnshaw. Sophie is the comanager of Baillie Gifford's China Growth Trust. My name is Richard Lander of Citywire and I'm going to be talking to Sophie for about 25 minutes about how she runs the trust.

So, thank you Sophie, thank you for joining us today. Always interesting times in China and running money there. You said recently, "It's been a volatile 12 months for the trust." I think that followed on from an equally difficult year 2021 to 2022. So how do you, as a fund manager, cope in circumstances like this and what advice would you give to your investors about how they should cope as well?

Thanks, Richard. So, at Baillie Gifford we've invested in China for almost 30 years now. We've experienced cycles like this in the past and I think the key to getting through them, is really sticking to your philosophy and your process. So, for the China Growth Trust, we're sticking to our growth bias and we're sticking to our fundamentals led research. We've gone back to basics on most of our holdings and gained comfort from the fact that the operational performance is coming through as expected. In addition, we've spent a lot of time working out why returns have been volatile or poor, more broadly and then based on that understanding, whether the case for China still stacks up and we think it still does.

If I could expand on that a bit. Looking back over the last three years, China's faced an unprecedented series of challenges. So, we had COVID, a regulatory clampdown and a worsening geopolitical environment. These challenges have hurt private sector and consumer confidence. They've negatively impacted sentiment towards the asset class and they've resulted in very weak returns. If we look forward, instead of backward, we think prospects for China look much brighter. So, at the broad level, whilst growth in the property sector is likely to remain lacklustre, we think the risk of financial stability is low. We think a consumption led recovery is gradually taking shape and that the government support for the private sector is likely to accelerate this somewhat.

Then, with geopolitical concerns, whilst they're likely to remain a headwind to sentiment, we think there are signs that both sides want to stabilise the relationship. More importantly for us, as bottom-up stock pickers, the attraction that China offers to us remain very much intact. So, whilst GDP growth overall, may be slowing, we continue to find very large pockets, actually, of structural opportunities. So, areas like healthcare, renewable energy, semiconductors, automation, domestic brands. Then just on the trust portfolio itself, the portfolio itself remains overwhelmingly exposed to these longer-term disruptive and secular growth themes. I think that's reflected in, for example, forecast earnings growth for our portfolio of around 15% per annum over the next three years versus the benchmark at only 9%.

Encouragingly, the operational results of many of our holdings are good or on an improving trend. So, we think that with valuations attractive in both an absolute and a relative sense, that it's only a matter of time before the strong operational performance is rewarded with good share price and good returns.

Excellent overview there and before we leave and look forward, let's just look back a little again. You mentioned those three main factors. Zero COVID, the regulatory clampdown and those geopolitical tensions. Which of those three did you find the most difficult to contend with when you were running the trust on a day-to-day basis?

I think both regulation and geopolitics were difficult. I think understanding regulation and the motivations behind it is really important when you're investing in China. What we saw in the education and internet sectors, it was pretty painful and it led many to question how much you can trust the regulatory framework. We think you can, in the long-run, but that shorter periods of volatility are highly likely. We think that regulation and innovation are intimately connected and shouldn't be viewed in a vacuum. I think we've had a decade almost, of unrestrained innovation or growth in key new areas in China. I think it was actually, time for the regulator to provide a bit of a check.

If I can just give you a couple of examples here. Transactions via WeChat Pay. WeChat Pay is Tencent's payment platform. They increased from basically, nothing to around one billion a day over the last ten years. Now, if we put that in context, Apple Pay only processes around one billion transactions a month or in ecommerce, for example. Amazon is 13% of global ecommerce sales, Alibaba now accounts for 29%. So, ecommerce penetration in China, now dwarves that of the US. Let's put this in context. So, with the regulatory backdrop, in the US we've had 150 years of antitrust law. The Chinese antitrust law was only written in 2017 and it only started to be taken seriously in the last couple of years.

So, China did have a lot of catching up to do. Not in terms of innovation, it was innovating and growing much faster, but in terms of regulation. I think also, if you look at the content of regulation, actually in the main, it's been remarkably sensible. The motivation behind it has been to try and foster sustainable growth industries for the future. That's impacted, in some cases, short-term earnings growth, but in the long-run, we think it's actually very supportive for the companies that we own and for their share prices. I think the real challenge, when it comes to regulation isn't the content of it, it's actually the way it's implemented and that links back to China's top-down system of governance where you get a top governor from a central bureau issuing a regulatory guideline.

You get a very overzealous response from local regulators who are keen to impress their bosses. This result in unintended consequences such as economic weakness, as we've seen. That draws the attention of Beijing, they clarify their position, regulations rollback and then, that balance of innovation and regulation is restored. I think that's exactly what we've seen over the last year. We've seen the government swing from a focus on disorderly expansion of capital to supporting the platform economy and supporting innovation. So, whilst we don't expect this regulatory clampdown to be the last, we do expect it to be corrected and that balance to be restored.

Then geopolitics, I think, was the other difficult one. Here, whilst we continue to expect that geopolitics and in particular, the US/China relationship, for that to continue to provide a long-term headwind to sentiment, particularly in the context of an up-and-coming election cycle. We do think that a worst-case scenario is unlikely. Actually, over the last six months or so, there have been tentative signs that both sides are quite keen to stabilise the relationship. So, whether that's Treasury Secretary Yellen's speech in April or reported comments by Secretary of State Blinken on his visit to Beijing in June. I think both of those things indicate a more constructive approach going forward.

Then just finally, on the portfolio and how that relates to geopolitics, we remain very exposed to domestic China. So around 85% of our holdings' revenue comes from China, with only around 5% or so from the US. [marker 0:10:00] As stock pickers, we do try and factor geopolitics into our stock analysis, on a stock-by-stock basis. So, we're more inclined to invest in companies with strong domestic exposure and where further decoupling is likely a net benefit, rather than a net negative.

So, when the EU announced today, that they were going to investigate whether China was dumping cars, effectively, in the EU, didn't worry you too much.

It doesn't worry us too much. I think in particular, China hasn't actually been that successful in a lot of these EU countries. Where it has been successful is in EVs and in certain markets where EV penetration is high. Here, we think China has a genuinely very strong, both technological advantage and, also, cost advantage that I think, will result actually, in it doing pretty well in the long-run in terms of EV exports globally. Perhaps not in the US, but I think potentially, in Europe.

Declaration of interest, I drive a Chinese EV myself. Let's focus domestically for a second. You talk about the government wanting to get the economy growing again because it has stalled somewhat. How committed can the government be towards reigniting growth because there are a lot of worries about the indebtedness in some parts of the economy, particularly with the property sector. So, if they go too much and help the economy in general, one way, they risk reigniting problems in another way.

So, debt levels do limit the government's ability to offer a very large stimulus package. However, gradual easing is, I think, very viable and is, indeed happening at the moment. So, the government had a very prudent approach to COVID stimulus. So, I think COVID stimulus was around 10% of Chinese GDP versus around 70% in most developed market countries. They've also been reasonably conservative when it comes to the property market, in terms of trying to cool that over the last decade. So, I think, actually, the government has a number of levers that it can pull. China is one of the very few countries in the world that has and can continue to lower interest rates in response to economic weakness. It can also and it has begun to relax those restrictions that it put on property in the early 2010s.

Actually, in July, the central government gave local and city governments the go ahead to relax restrictions on home purchases and in August, we saw Guangzhou, a major tier one city, be the first to act. We expect others to follow suit and for this gradual easing approach from the government to bear fruit. I think it's also important to remember that the Chinese consumer and the private sector, in aggregate, remain actually, in very good financial health. So, the Chinese consumer saved up an estimated seven trillion of excess savings during COVID. The private sector, as I said, in aggregate remains in very good health with balance sheets. It's actually the private sector that accounts for the majority of GDP growth and the majority of job creation.

Both the private sector and the consumer has been hurt, I think, by COVID lockdowns and by the regulatory clampdown, but I think it's only a matter of time before confidence improves and therefore, spending and activity improve somewhat. Then, just a final note on what macro means for us. We'd actually note that macroeconomic forecasts tell us not a huge amount about long-term returns for active stock investing in China. So, for example, China's nominal GDP in US dollar terms has grown tenfold over the past 20 years. So that's around 12% per annum. Yet, MSCI China has only returned around 6% per annum. So, these unimpressive index returns actually mask fantastic performance at the individual stock level.

So, for example, over five years to the end of 2022, I think Chinese companies accounted for almost 25% of global companies who have returned 15% per annum in share price terms. So, it's not to deny that China has structural issues, but it's rather to show that there's a persistent gap, I think, between the perceived macro doom and the hidden micro-opportunities that we're finding. It's really these micro-opportunities where we focus our energy and it's there that we can add value for our clients in the long-run.

Let's take that cue and drill down a bit into your portfolio and the stocks that you hold there. So, if you had to say in a couple of sentences what is the common thread of your investments? Obviously, there's 60, 70 stocks there and we'll dive into the different sectors in a second, but what is your common thread when choosing this portfolio?

In a couple of words, it would be something like best-in-class Chinese growth companies. That, basically. Then within that, some of the big structural trends that we've got exposure to, it would be things like early and late-stage platform companies in areas like ecommerce, advertising, or food delivery. It would be exposure to companies in industrial upgrading and robotics. It would be exposure to the green transition, exposure to domestic brands and exposure to areas such as healthcare.

Okay, let's just take that a little deeper. You mentioned the energy transition there, from solar to batteries are in your portfolio. Is it the case that China is going things here that makes it a world leader and perhaps, we haven't really taken that onboard in the west?

If we look at the big picture first. So, China imports around 70% of its oil and around 45% of its gas. Actually, geopolitical risks have made energy an even more important item on the national security agenda for China. This has translated into massive incentives to invest heavily in renewables and we've seen that over the last decade. Again, it's really private companies here, that have led the charge. So, China now has around six of the top ten global EV battery manufacturers in the world. It makes over 70% of the world's solar cells and it contributes roughly two-thirds of new global wind power infrastructure. It also accounts for almost 50% of total EVs in the world. Many of the companies playing to this theme are found in our investment universe.

So, as I mentioned, we own a company called BYD. So, this is a leading electric vehicle manufacturer and we also own CATL, the world's leading EV battery manufacturer. Actually, BYD is a newish purchase for us. It's one of the few fully vertically integrated electric vehicle manufacturers. So, it's the second largest EV battery manufacturer in China. It also manufactures something called IGBT chips, which are crucial for this like ADAS. We think this vertical integration gives it a fantastic cost advantage and, also, a speed to market advantage. It's really executed well on both of those opportunities or those advantages. It's now leader in China, in the mass market EV space, but also, growing very quickly overseas. We think it's got very exciting prospects ahead of it. China's EV penetration is now at 30% of new car sales, but still rising very quickly.

Where does this come from, this advance that's leading the world? Is it from better universities, is it from better training for people? More investment in infrastructure.

I think it's a combination of two things. Really, the government is very keen to push the green transition and the energy transition. Partly because, as I said, for energy security reasons but also, because they've experienced some of the negative consequences of climate change, but also, pollution. So, it was only three or four years ago when smog in some of the biggest Chinese cities was a real issue and that was really impacting on everyday peoples' quality of living. So, the government is very keen to push the green transition and as a result of that, they've offered numerous support packages or stimulus packages, much in the same way that the US is doing now.

Then on top of that, you've got a very highly educated workforce. [marker 0:20:00] You've got a huge number of science and technology graduates coming out of Chinese universities and you've got a very vibrant private sector. So BYD, for example, a founder led private sector company, its origins are in small consumer batteries, but it's moved into EVs. So, it's a combination of those big picture support from the government. Very highly educated population and then, a very dynamic and entrepreneurial private sector. That, I think, has given China a bit of an advantage here.

Let's go on to the consumer plays that are there in your portfolio. Four or five years ago we talked about the amazing spending power of Gen Z in China and the development of the middleclass there. Then obviously, we had the pandemic and that threw everything out of the window. Has that spending power, has that ability, the desire to improve on living standard and buy things for your home, has that come back maybe even bigger than before the pandemic?

It's coming back. COVID related lockdowns hurt confidence and to a certain extent, spending power. Here, don't forget that the lockdown in China only ended in January of this year versus 18 months ago in the west. So, there's been less time for the Chinese consumer to recover. As I said earlier, COVID stimulus only accounted for around 10% of GDP in China versus 70% in the west. It also did not take the form of direct-to-consumer handouts. Instead, as I said, Chinese consumers have saved up an estimated $7 trillion of excess savings, which they're only just starting to unlock as confidence improves. Some of our generation Z or consumer platforms have been hit by weaker spending. So, we've seen for example, Li-Ning, which is a preferred sportswear brand among younger consumers, face a few inventory issues.

They've been increasing discounting rates, which has hurt the performance of the shares. We've also seen Pop Mart, it's a collectables company that's very popular with gen Z, post a bit of a slowdown in 2022. For both of these companies, we think that that demand correction is temporary or cyclical and that, as confidence improves, so will their numbers. We have started to see very good numbers for a lot of our internet platform holdings, which I think suggest that consumption is gradually recovering quite well. So, you know, Alibaba, the world's leading ecommerce platform or Tencent, China's most popular social networking app, they both saw a return to double-digit topline growth in their most recent quarterly results.

More importantly, both companies benefit from very large structural growth opportunities and both again, remain very attractively valued. So, for example, Alibaba's ecommerce business, if you strip out cash and investments, it's trading on a single-digit price earnings multiple. Byte Dance, our only unlisted holding, also delivering very strong, double-digit top and bottom-line growth. So, I think we're seeing, from a number of our holdings that the recovery is slower than many expected, but it's gradually coming through.

Let's talk about valuation for a minute. You mentioned some companies there that are getting into single digit price earnings ratios. Just talk us through a couple that you've retained or indeed, added to on valuation grounds. Are these single figure PE bargains all around for you to pick up?

So, we haven't made any big changes to the portfolio, particularly in the last six months. So, I think we're only running at around 5% turnover versus an average of 20%. That's because given the promise of the asset class and the private sector derating, a lot of our holdings have derated. We're happy with the overall shape of the portfolio. So that exposure to the private sector and those pockets of structural opportunity, we think we're very well placed. There have been a number of areas or a number of companies that we've been able to take advantage of. So, for example, we added to SG Micro and Shenzhou International.

SG Micro is one of our little giant companies. So, it's an analog semiconductor company. The chips that it produces, they convert real-world signals such as sound and temperature into digital signals. Actually, the opportunity for this company again, I think has been increased or accelerated as a result of geopolitical tensions. One of China's biggest import bills, actually bigger than oil, is semiconductors.

So, it's keen to increase self-sufficiency there. SG Micro shares have been very, very weak as a result of what we think is a temporary cyclical dislocation. So, we've added to that stock to take advantage of that volatility.

We also added to Shenzhou International. This is a garment manufacturer. I think it's actually a supplier to Li-Ning and it's been hit, I think, because the consumption recovery story in China has disappointed. Very well-run company, fantastic management team and again, an opportunity where we think this is a cyclical issue, it's a great time to add.

Obviously, you've lowered your conviction on some companies and a couple have moved out of the portfolio. What triggers that decision to say I've been patient enough, but I don't see this one working out for me.

Process-wise, we review all of our holdings on an 18-month rolling basis or more urgently if there's been significant news on the company. In general, we tend to sell or reduce if the valuation is no longer attractive or if our view, relative to the market's view is no longer differentiated or if the investment case we think is no longer working. So recently, we reduced two companies, Eston*[sounds like 0:27:20]* and Inovance. Both are in that industrial upgrading robotics part of the portfolio. Inovance, in particular, has actually exhibited fantastic operational performance. So, over the past three of four years, it's almost trebled its revenue and profit and its share price. We think part of that performance is structural. So, it's vastly improved the quality of its products and its technology.

We think it's also benefitted from supply chain disruptions that some of its multinational competitors experienced. So, we reduced marginally, on the back of strength and to guard against a potential air pocket in terms of demand market share with these COVID disruptions. We also partially sold Tiger Red*[sounds like 0:28:12]*. This is one of our healthcare holdings and we completely sold a number of companies where we thought that the investment case was no longer working. One of the key parts of most of our investment cases or a key criterion to get into the portfolio is roughly long-term alignment with government. We thought that Bilibili and Lufax had both fallen foul of that. So, we decided to sell both of those companies.

Again, looking at the report you presented to shareholders a short while ago. You described China as, "An attractive mix of risk and reward." Do you think it's getting more attractive now, as time moves on?

Chinese equities, after a brief surge in December and January, post the reopening, they've given back most of their gains. The index is still at a similar level to end of 2016. The A-share market in particular, has delivered strong earnings growth, but has been derated over the past five or six years. I'd say more broadly, sentiment towards the asset class appears very negative and, in our view, consensus or the market view is too pessimistic. We think a lot of the market's concerns are already priced in. As I said, we are starting to see the beginnings, we think, of an improvement in the domestic economy. Particularly, where consumption is concerned.

Then for us, as active investors, as I said earlier, [marker 0:30:00] we do still think China continues to offer these big picture structural opportunities that should persist regardless of whether GDP grows at 5%, 3% or 1%. So, I would say that China still offers an attractive mix or risk and reward.

As we move to the end before we get onto questions, I just want to ask you a couple of questions about China's place in the world because you obviously have great faith in it and the companies that are doing great things there. There are quite a lot of large investors overseas who think that China is just uninvestable because of the capriciousness of the government. This obviously, offer less support in terms of fund flow for the equities price there. Does that worry you or you just think, let them do what they want to do and I'll do what I want to do?

It's a good question. A couple of points. The first one, I think it's important to remember our starting point here. So, the A-share market only has around 3% or 4% foreign ownership. It's very domestically owned and focused. The Hong Kong market is much more diversified, but in aggregate, China's representation in global indices such as MSCI ACWI is less than 3.5%. China's weighting is actually smaller than Apple, the company. So that would be the first point, don't forget where we are at the starting point. Second, we have had a really awful three years and sentiment does tend to be pro-momentum. So, it's no surprise that I think these calls that China is uninvestable have gone up after the experience we've just had. I do think that once conditions improve, some of that sentiment may turn.

Then finally, just in the longer run, we do think that there are potentially, other pools of capital that could replace, particularly US money in the market and potentially, provide support for equity prices in China, if you were to see a real marked continuation of decoupling. So, pools of capital, for example, in South America, Asia or the Middle East.

Just following on from that, China to a certain extent, is less the flavour of the month than it was a few years ago and then you have India making a big push, hosting the G20 and the Middle East coming onto the scene as well, with various initiatives to make it a place to invest. Is this going to be detrimental for China, as India and the Middle East start to shine a bit more on the global scene?

From the current starting point, I don't think so. I still think that as a firm we continue to come back to China as a place where you can find world class, structurally growing companies. I think China continues to have a number of advantages that mean that this will continue to be the case for the next decade or longer. A little flippantly, but I'd also note that the market itself is much cheaper in aggregate, than a market like India. I think MSCI India is trading on historic 27 times earnings versus MSCI China on 13 times. So, I think there's a bit of a valuation opportunity here as well.

One I'm going to start with is about data saying, "When you talk about improvement in the domestic economy and that people are now spending, how reliable do you think that data is, that leads you to those conclusions?"

I think it's reasonably reliable. So, we don't just rely on the data that the government publishes. Although to be fair, China does publish a lot. We also rely on some of our third-party research providers, which have tried to compile their own activity indexes, for example. We then tend to cross check the data that we receive at macro level with on the ground data from our office in Shanghai and the research that we do there on the ground. Also, from the companies that we invest in. So, one of the most positive signals for me recently, has just been the improvement in a lot of our company's holdings results. So, as I said, both Alibaba and Tencent returning to double-digit revenue growth after a pretty poor couple of years.

Meituan, our food delivery platform company delivering very strong top-line growth. Byte Dance, similar situation. A number of our industrial automation and broader industrial holdings also starting to post very strong results. Even in the financial sector. So, one of our largest holdings, Ping An, a key private sector life insurance company, also returning to double-digit value of new business growth.

Back to the portfolio itself, this question is, "You've got one unlisted company in the portfolio, are you keen? Is there potential to increase the number of unlisted companies there?"

Again, we are keen. We've got a cap on unlisted investments of 20% and we're nowhere near that cap at eth moment. We've got one unlisted investment in Byte Dance, which is about 5% or 6% of the portfolio. Very keen to increase our private exposure, but we want to make sure that we get the right companies at the right price in there. So, over the last couple of years, we've seen a number of companies come to us and we haven't quite got over the line, largely on valuation grounds, for a number of these companies. That isn't to say that in the future there won't be more opportunities. We think there will. As is the case with I think, the US market, Chinese companies in some sectors are putting off listing until much later in their development. So actually, having an ability to get access to these investments before they're listed, I think could be really accretive. It's one of the main benefits, I think, of the trust structure. So, we would expect that private weighting to increase, but only with the right companies and at the right valuations.

Another question is, "When did you actually last visit China? Have you been since the lifting of COVID and what did you find there?"

So, I was in China in May of this year. it was a fantastic trip. It was a joint trip with goth of the managers from Scottish Mortgage. So that combination was fantastic because obviously, those guys invest globally. So, hearing their global perspectives on some of these Chinese companies was really very interesting. We spent a week in China, travelling around, seeing most of our large internet platform holdings, including Byte Dance. Seeing some new ideas in the semiconductor space. Then seeing a number of competitors to our existing holdings. For me, prior to going in May, I was last there in January 2020. Actually, really what struck me was I think from our platform companies, in particular, there was a greater degree of confidence in both the domestic economy, but also, the management of the domestic economy.

So, a lot of positive comments from a number of our holdings on Li Qiang, the new premier. In contrast to a lot of the reporting that you read in the west, there was still, I think, a good degree of animal spirits and a good degree of optimism. If you'd asked me that question a year ago, I think we were just in a less good place. In May, it was striking that there was more positivity, basically. So, it was a great trip, great to be back on the ground.

Going back again soon.

Yes, I'll be there again probably end of October or in November at some point.

Couple more questions before we have to wrap up. One is, "We touched on this, the real estate sector is just [marker 0:40:00] a bit of a mess really, I think it would be fair to say and obviously, you don't invest there, but do you think the problems that it's causing the wider economy are a threat to your portfolio??

No. First point to make, we don't have any real direct exposure to the property sector. We do think of it as a sector that is likely to see a stabilisation but to be lacklustre in terms of growth and therefore, not really an area where we'd be hunting for opportunities in the portfolio. I think it's fair to say that the weakness in property is having an impact on overall growth within the economy, but I think some of the headlines that we read about, the risk of financial instability—we still believe that the risk of financial instability from the real estate sector is low. A couple of points to make here. So, property sales are down almost 50% from their 2021 peak. So, activity is depressed, but prices have barely budged.

I think this is a key point. China has never experienced the asset price bubble that has precipitated almost every property market crash in developed markets. Property prices have grown at around 7%

over the last decade, but income growth has surpassed that. Property actually, on average, remains affordable. Whilst developers such as Country Garden, which has hit the headlines, has become over indebted, the Chinese consumer actually, remains in pretty good health, as I've already talked about. So, as we talked about in the conversation, the government can't offer a very large stimulus package and I don't think it wants to, but it can gradually ease and that's what we're seeing.

I think what we will see is just a stabilisation in property, partly due to the government's gradual easing approach, partly due to activity improving as consumer confidence improves and as private sector confidence improves. China will gradually grow out of this. So, we aren't too worried about it at this point in time.

Final question, another worry perhaps is, "The tensions over Taiwan seems to be growing, do you think this keeps a lid on valuations of stocks?" No matter how well they're doing, how fast they're growing, how reasonable their price earnings ratios, this is looming in the background and is obviously, unpredictable and were not here to predict when or if China might invade Taiwan, but do you think that's a factor weighing down on everything?

I think it has been a factor, particularly over the last two or three years. I would argue that we're in a place now, where I think a lot of those concerns around geopolitics more broadly, or Taiwan are already in prices. So, I think again, remember where we are. Remember our starting point now and we are bottom-up stock pickers. We remain very humble in terms of our ability to predict geopolitical events, but our two cents on this would be that on Taiwan, it's a very low probability we think, but high impact event. It's low probability because of a number of reasons. The incredibly high stakes involved. The fact that a defeat here would, I think, seriously threaten the legitimacy of the government.

The fact that it would be a very difficult endeavour in a military sense, which again, greatly increases the chances of failure and then because the government, contrary to western reporting, the government has been more focused on their domestic commitments than they have been on foreign policy. These promises to increase living standards, deliver a prosperous society by 2035, all of these domestic commitments would be unachievable in the event of a worst-case scenario. So, I think a lot of the concerns are already in the price and that we continue-, the risk of something happening here is low probability, but obviously, high impact.

That's all we've got time for, I'm afraid. Thank you, Sophie, so much, for your time and your insights into this ever-fascinating part of the world. Thank you all for watching and for your many questions.

Annual Past Performance to 30 June Each Year (%)

	2019	2020	2021	2022	2023
Baillie Gifford China Growth Trust	3.5	5.9	49.1	-33.4	-33.6
MSCI China All Shares Index*	2.9	4.4	14.4	-15.1	-21.6

Source: Morningstar, MSCI, share price, total return. Sterling.

**Changed from MSCI AC Asia ex Pacific index to MSCI China All Shares Index on 16/09/20*

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- *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.*
- *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.*
- *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.*
- *Investment in smaller companies is 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.*
- *The Trust's exposure to a single market and currency may increase risk.*
- *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 and it is unlikely that the Trust will provide a steady, or indeed any, income.*
- *The Trust is listed on the London Stock Exchange and is not authorised or regulated by the Financial Conduct Authority.*

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.

Investment Term Glossary

Secular growth themes*- changes in the economy or business climate that develop over long periods of time.*

Forecast earnings Growth- *estimated rate at which a company's earnings are expected to increase over a specific period of time, usually one year or more.*

Absolute and Relative sense- *an absolute sense refers to valuations being considered independently, without any comparison to a benchmark. In a relative sense, valuations are compared to others.*

Price-earnings ratio/ Single-digit price-earnings multiple - *a valuation measure that is calculated as a company's market cap / its earnings, or equivalently, share price / earnings per share*

Little giant companies- *innovative small and medium-sized enterprises (SMEs). They are leading SMEs that specialize in niche sectors, command a high market share, boast strong innovative capacity and core technologies.*