BAILLIE GIFFORD CHINA GROWTH TRUST- MANAGER INSIGHTS

Sophie Earnshaw, co-manager of the Baillie Gifford China Growth Trust, gives an update on the philosophy, positioning and performance of the portfolio since Baillie Gifford took over management of the trust in September 2020.

The value of your investment and any income from it is not guaranteed and may go down as well as up and as a result your capital may be at risk.

This film was produced and approved in June 2022 and has not been updated subsequently. It represents views held at the time of recording and may not reflect current thinking.

For a Key Information Document for the Baillie Gifford China Growth Trust, please visit our website at ***www.bailliegifford.com***

CURRENT OUTLOOK

Sophie Earnshaw (SE): It's been a turbulent and painful 12 months for investors in China. The main drivers behind the poor performance are one regulation, two geopolitics and three Covid. So taking each in turn:

Regulation

Over the past year we've seen increased regulation in two interconnected areas: the platform economy and data. This increased regulation has been interpreted by the market as an attack on the private sector, and has resulted in valuation multiples contracting across a wide range of companies. We strongly disagree with this interpretation for the following reasons:

First, it's important to note that regulating these large tech companies, like Google or Facebook in the West, is a global, not a local issue. China's just really the first country to make inroads here. Second, the vast majority of regulation issued so far has been broadly sensible. In fact, what's caused most distress isn't the regulation itself, but the way it has been communicated to the market. Encouragingly, we've now seen the senior leadership acknowledge the need to communicate regulation in a more transparent and less disruptive fashion. This culminated with Xi Jinping stating recently that 'normal supervision' of the platform economy will resume, and that specific measures to support it will be rolled out.

Geopolitics

Moving on to the second driver of weak performance: geopolitics.

We saw this initially with the US's Holding Foreign Companies Accountable Act, which has drastically affected the valuation of US listed Chinese companies. More recently, we've seen this with the sell-off in Chinese shares post Russia's invasion of Ukraine. Since then, China has made its position on Russia much clearer and has stated that Ukraine's sovereignty must be respected. But are we likely to see secondary sanctions placed on China? The US has said that if China supports Russia materially, it may face additional sanctions. Unfortunately, the US hasn't offered guidance on what 'material support' means. The risk is therefore that China believes itself to be abiding by US sanctions and inadvertently oversteps the mark. If this occurs, we think it's likely that sanctions will be narrow and targeted as the economic ramifications of anything more far reaching would have much greater negative consequences for the global economy. But this does remain a risk.

Covid

Third, Covid. The government's zero Covid policy has necessitated a shut down of Shanghai and increasingly Beijing, causing the market to worry about the impact to economic growth this year. Now, whilst this is a concern, we think it's a short-term issue rather than a long-term structural challenge. Indeed, in a macro economic sense, we believe China remains robust and is one of the few countries in the world that has the scope to lower interest rates.

Taking a step back, the big picture trends that excite us in China have not changed: China is on track to become the world's largest economy over the next decade; its middle class is set to rise from 400m to 700m people, a feat that hasn't been seen anywhere else in the world. Its consumers, particularly those born after 1990, are more culturally confident and they love Chinese local brands. Getting access to the Chinese consumer via multinational companies listed overseas is increasingly difficult. Out-with consumption, China continues to double down on research and development. It is no longer a copy-cat country, but a leader in many fields. One such field is renewable energy. It boasts the world's largest EV battery manufacturer, and the world's largest solar panel maker. Another such field is healthcare. Here, companies like Beigene, Burning Rock, and Kingmed are pushing the limits of drug development, cancer detection and diagnostics, and contributing to China's goal of becoming a world class innovation centre for healthcare.

This therefore remains a country with big risks, and big opportunities. For investors with the appropriate tolerance for volatility and a long-term time horizon, China will hopefully offer attractive returns.

PORTFOLIO

Moving onto the portfolio, we continue to believe that it represents a selection of the best and most innovative public and private growth companies in China. Whilst performance of the portfolio has been weak over the short term, we would hope that shareholders judge our investment returns over a period of five years or longer, the same period over which we judge our companies' performance.

Encouragingly, the operational performance of our underlying holdings remains strong. 85 per cent of the portfolio is profitable. And these profitable companies are growing their earnings at around 19 per cent per annum, which is 50 per cent higher than in 2019, whilst over half are growing at above 20 per cent. This is what we spend time focusing on as, as over the long run, we continue to believe that attractive operational performance will lead to attractive share price returns.

TRANSACTIONS

In terms of portfolio positioning and transactions, we continue to upgrade the growth profile of the Trust, and to make investments in companies exposed to China's next decade of growth and policy priorities.

Notable transactions over the year include: the purchase of Longi Green Energy, the world's largest solar panel manufacturer, Sungrow, a leading inverter maker and enabler of the green revolution; SG Micro, a leading analog semiconductor designer; Sinocera, an advanced manufacturing company with exposure to growth via the internet of things; and Beijing United Technology, an online B2B platform that is helping its industrial users become more efficient.

We funded these new buys with the following notable sales: Huya, a live streaming gaming platform, and iQiyi, were both sold due to changes to the regulatory environment which negatively impacted the investment case; and Foshan Haitian, a soy sauce maker, on valuation grounds after a very strong run in the shares.

We also made reductions to CATL and Li Ning on strong share price performance, whilst adding to stocks such as Beigene and Kingmed.

CONCLUSION

In conclusion, we still believe China offers an attractive mix of risk and reward to long term investors. The big picture opportunities within China remain compelling. That being said, this is a volatile market and one must be comfortable with this volatility before investing. In terms of the Trust's underlying holdings, we remain confident in the companies in which we invest, and believe that over time, their strong operational performance will be matched by strong share price returns.

Annual Past Performance to 31 March Each Year (%)

	2018	2019	2020	2021	2022
Baillie Gifford China Growth Trust	6.6	4.1	-3.2	53.0	-32.7
MSCI China All Shares Index*	7.5	2.4	-7.4	27.3	-20.5

Source: Morningstar and relevant underlying index provider, share price, total return. Sterling.
*Changed from MSCI AC Asia ex Pacific index to MSCI China All Shares Index on 16/09/20

Please note, Baillie Gifford was appointed by the board to manage what was the Witan Pacific Investment Trust as of September 2020

Past performance is not a guide to future returns.

Important Information and risk factors

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 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 trust's exposure to a single market and currency may increase risk.

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's risk could be increased by its investment in private companies. These assets may be more difficult to buy or sell, so changes in their prices may be greater.

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.

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 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.

Baillie Gifford & Co Limited is authorised and regulated by the Financial Conduct Authority (FCA). The investment trusts managed by Baillie Gifford & Co Limited are listed UK companies.

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