

# Manager insights: Pacific Horizon Investment Trust

November 2024

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Investment manager Roddy Snell discusses performance, regulation in China, semiconductor exposure, and how the portfolio is positioned for future growth.

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

**Roddy Snell:** Hello, and welcome to this annual update on the Baillie Gifford Pacific Horizon Trust. My name is Roddy Snell, and I am the lead manager of the Trust, which aims to achieve long-term capital growth via investments in the best growth companies in the Asia ex Japan region.

In practise, this means we focus on companies that either grow over longer periods than expected, at faster rates than expected, or will surprise by growing when no growth is expected at all. We have found that these are the most persistent sources of outperformance over our five-year time horizon, and our research is singularly focused on finding these companies.

When reflecting on performance over the past year, a few things dominated: the portfolio's substantial exposure to India and investments in Vietnam contributed to positive returns, while stock selection in China and having less exposure than the index in Taiwan's semiconductor producer, TSMC, detracted.

## Portfolio update

Asian markets have demonstrated resilience in recent years. Despite challenges such as a strong US dollar, and ongoing weakness in the Chinese economy, Asian economies have not only avoided crisis, but most have prospered, outpacing growth in many Western nations.

Our holdings generally performed well operationally, and an increasing number of new investment opportunities has led to higher portfolio turnover.

There were two notable changes in the portfolio.

First, we increased holdings in 'rapid growth' companies, particularly via online consumer businesses, such as Kaspi, a fintech business and ecommerce super app from Kazakhstan; Pinduoduo, a Chinese ecommerce platform; Tencent, known for gaming and social media in China; and unlisted company Bytedance, the owner of both Douyin and TikTok, the world's most popular short form video platform.

Chinese internet companies have been significantly derated since 2021 due to regulatory crackdowns. However, despite the negative headlines, companies are generating record profits and have been committed to buying back significant amounts of their own shares.

A turn of domestic policy also appears imminent. Internet sector regulators have moved to a more supportive tone, and this shift was reinforced by a series of stimulus announcements from Beijing at the end of September, which led to the largest one-week rally in Chinese stock markets since 2008. Now, while it's premature to say the worst is behind us regarding the structural challenges for the Chinese economy, we believe investment opportunities in China remain compelling and the portfolio is positioned accordingly.

The second change is the increase of semiconductor-related exposures. Sentiment has softened towards AI recently and this has affected the share price of many of the semiconductor stocks. However, we see little reason that the 'silicon intensity' of the global economy won't further increase.

We made significant additions to TSMC, the Taiwanese foundry who has become an effective monopoly in advanced chip manufacturing with increasing pricing power. We also increased our positions in Korean computer memory makers Samsung Electronics and SK Hynix. In terms of new purchases, we took a holding in SG Micro, a leading Chinese analogue semiconductor company.

These new additions were funded by the sales of other slower growing, non-tech businesses in China, as well as taking profits from a few Indian industrial holdings which have performed very well in the past few years.

## **Prospects**

Many developed markets are predicted to lower their interest rates, which could lead to a weakening US dollar. A weaker dollar would serve as a significant tailwind for Asia and emerging markets more broadly. More pro-growth Chinese policies may also support sentiment towards Chinese stocks, which has been extremely pessimistic in recent years.

Perhaps most encouragingly, we are discovering an increasing number of investment-worthy companies across the region, particularly ones with substantial growth potential.

The shape of the portfolio reflects our genuinely optimistic outlook at the current juncture. Rather than being driven by a single theme, the portfolio is supported by a diverse range of secular, cyclical, and idiosyncratic growth drivers – and it remains attractively valued. Forecasted earnings growth for the companies in the portfolio is nearly double that of its reference index, but we believe this is yet to be reflected in the companies' share prices.

Thank you for your support of the Pacific Horizon Investment Trust. For more details, we invite you to read the Trust's latest Annual Report on our website and we look forward to seeing many of you at our next AGM.

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

	2020	2021	2022	2023	2024
Pacific Horizon Investment Trust (Share price)	85.0	51.3	-32.8	-6.8	10.1
Pacific Horizon Investment Trust (NAV)	60.1	48.1	-19.9	-4.7	11.5
MSCI All Country Asia Ex Japan Index	12.6	10.0	-13.6	1.8	17.7

Source: Morningstar, MSCI. Total return in sterling.

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The specific risks associated with the Baillie Gifford 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 on the Trust-specific pages at [www.bailliegifford.com](http://www.bailliegifford.com), or by calling Baillie Gifford on **0800 917 2112**.