

CHINA STRATEGY

Investment manager, Sophie Earnshaw, discusses the Baillie Gifford China Strategy and reflects on its philosophy and the exciting opportunities ahead.

Your capital is at risk.

Sophie Earnshaw: China's stock market is the second largest in the world. Yet, the entire weight of China in global equity indices is less than one US stock - Apple. The economic rise of China has not been followed by a shift of gravity in investment portfolios. Is the investment world falling behind?

As long-term stock pickers, we find China a rich hunting ground for growth ideas. China is a platform for innovative growth:

1. It's a global research and development leader
2. It has the largest renewable capacity in the world, triple that of the second ranked country
3. It has built more 5G base stations than the rest of the world combined.

So, if 3G brought us Tencent and Alibaba, 4G brought us Bytedance, what would 5G bring us?

Our China equity Strategy looks for the best Chinese growth companies, regardless of where they're listed.

We believe a portfolio's long-term return will be driven by actively identifying and owning a small number of such exceptional companies, rather than timing the market via index exposure. We feel that our process is radically different from the market in three ways – so we are very long-term, we focus on growth upside, and we look for diversified information beyond traditional stock analysis.

Being early movers as a firm in investing in companies like Alibaba in 2012 and Tencent in 2005, we've built up more than two decades of experience in this market and now also have a local research platform in Shanghai. Instead of relying on quarterly earnings reports, we talk to academia, industry experts, founders and private companies, who all think along the same long-term timeframe as us. This deepens our understanding of the structural trends in China and helps us find the best growth companies that are exposed to these trends.

One area we have been focusing on is innovative healthcare. China has more than 100 million diabetes patients and accounts for 25 per cent of the world's new cancer cases every year. The unmet demand is huge. We believe a few companies in this area, with strong research teams



and Chinese cost and efficiency advantages are set to become domestic leaders with global ambitions.

We think the China story remains underappreciated. Investing in innovative companies has always been our long-term contention, and many find their home in China.

Risk Factors

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