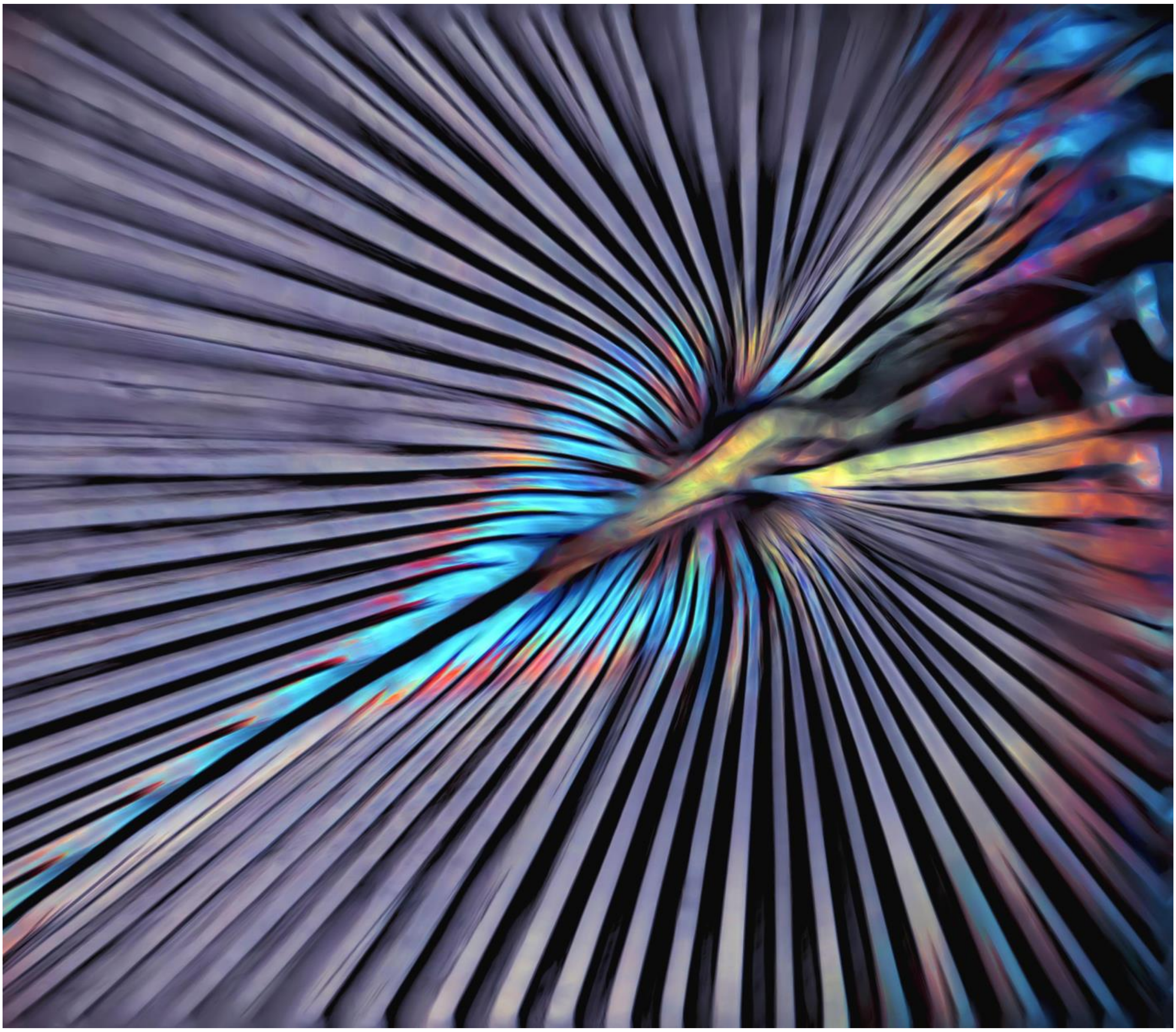
Baillie Gifford

China A Shares Quarterly Update

31 December 2024



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It should not be assumed that recommendations/ transactions made in the future will be profitable or will equal performance of the securities mentioned.

Potential for Profit and Loss

All investment strategies have the potential for profit and loss.

Stock Examples

Any stock examples, or images, used in this paper are not intended to represent recommendations to buy or sell, neither is it implied that they will prove profitable in the future. It is not known whether they will feature in any future portfolio produced by us. Any individual examples will represent only a small part of the overall portfolio and are inserted purely to help illustrate our investment style. A full list of portfolio holdings is available on request.

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Product Overview

The China A-shares strategy is a purely stock-driven, unconstrained equity strategy focused on investing in exceptional growth companies listed on the domestic stock markets in China (known as `A' shares). The companies which we invest in are expected to benefit from, and contribute to, China's economic, societal and cultural development, and be capable of growing to a multiple of their current size. We take a long-term approach with an expected investment horizon of 5+ years.

Risk Analysis

Key Statistics	
Number of Holdings	30
Typical Number of Holdings	25-40
Active Share	84%*
Rolling One Year Turnover	48%

*Relative to MSCI China A Onshore Index. Source: Baillie Gifford & Co, MSCI.

Baillie Gifford Key Facts

Assets under management and advice	US$272.3bn
Number of clients	613
Number of employees	1682
Number of investment professionals	375

Not everything in life is black and white. As a Newcastle United football team supporter, I wish it was. But as an investor in China, it is important to see all the shades of grey. A nuanced approach is increasingly important when searching for reality amongst the rhetoric. Over the quarter, the contrast between red and blue was most evident, with western commentators largely focused on the elections in the US and the consequent uncertainty as to US policy towards China. For the A share market however, it is the domestic situation which is most critical to market returns.

For much of this year, Chinese markets have been locked in a cycle of expectation and disappointment. But in September, the Chinese authorities delivered a coordinated package of monetary, fiscal and regulatory policy which suggested an inflection point in China's economic outlook. The combination of pro-growth economic policy and emerging tailwinds of regulatory support should be positive for markets. Valuations are attractive while the operational results of portfolio companies show how a combination of scale, efficiency and innovation can support significant growth.

Empirically, China's A-share market's performance is correlated with explicit government spending, as the latter drives aggregate demand, and the investor outlook on the economy and policies. The economy finally seems to have some central government support, with the Politburo meeting and Central Economic Work Conference in December pointing to significantly more stimulus in 2025. Macro-economic policy has been dialled up to a more proactive fiscal policy, moderately accommodative monetary policy and strengthened extra-ordinary counter-cyclical adjustments.

The market's response to the policy announcements was initially positive. According to UBS, almost four million new investors opened an A shares account in October 2024, five-times the average of the first nine months of the year. Retail investors dominate A share turnover and their short-term investment horizons can exacerbate both momentum and volatility. But longer-term excitement is underpinned by the potential upside if excess savings accumulated during the pandemic are released. This is particularly the case if capital markets are seen as a broader channel for wealth creation given the decline in the property sector in recent years. These are longer term possibilities; however, for now, all focus is on consumer and market sentiment. Boosting domestic demand has been elevated to the government's number one priority.

Domestic retail investors have far less of a concern about China's regulatory cycle or international politics. They care about property prices, rising incomes and jobs, and it isn't clear in high-frequency indicators such as property sales, equities prices or bond spreads that the policy shift has drastically or sustainably shifted consumer sentiment. For foreign investors, geopolitics has added an additional layer of concern. President Trump's cabinet has wide and polarised views on China, raising the levels of uncertainty in any future predictions. Tariffs on imports from China could dent China's domestic economic recovery, with the impact dependent on what happens to the currency, to the elasticity of US consumer demand, the ability for Chinese companies to reroute trade via third countries, or simply to find new demand sources as we're increasingly seeing from the 'global south'. However, if it turns out that President-elect Trump uses tariffs as a negotiating tool to support trade developments, the outlook for US-China geopolitics may be far more sanguine than many expect.

This brings implications for China's economy via exports to the US, which will have an impact on the required scale of domestic stimulus and adds an urgency to China's domestic innovation efforts in critical sectors. Under the ideological framework of 'new quality productive forces', Beijing is betting on transformative breakthroughs in frontier technologies such as semiconductors, electric vehicles, artificial intelligence and advanced manufacturing.

The interaction of secular growth opportunities, domestic economic challenges, global geopolitics and market volatility that has led to a pick-up in turnover in the portfolio. Over the last year, we have been reducing exposure to companies with revenues from the US, particularly healthcare and industrials. After sales of pharmaceutical companies Wuxi Apptec and Asymchem Laboratories earlier in the year, we made reductions to Anker Innovations and Zhejiang Sanhua during the quarter, whose share prices have performed well but where geopolitics has lowered the scale of the potential opportunity. We also moved on from holdings in companies whose operational performance has disappointed and where conviction in the long-term thesis has waned. This includes speech software company iFlytek, communication module supplier, Quectel, optoelectronics maker Hefei Meyer and IT service provider to China's state grid, Longshine Technology.

In contrast, we've been adding to companies benefiting from China's domestic environment or longer-term structural growth trends. Earlier in the year we bought new holdings in retail pharma chain Yifeng Pharma, leading copper miner Zijin Mining, electric vehicle leader BYD and local baijiu maker, Shanxi Xighuacun Fen Wine. During this quarter, we bought a new holding in optical transceiver manufacturer Zhongji Innolight and, playing to the trend of greater domestic self-sufficiency in critical sectors, two semiconductor companies: AMEC and Naura.

Developments in China's semiconductor industry could have significant global ramifications. Progress in China since the implementation of US sanctions has been substantial. Huawei is using domestically produced 7nm chips in its mobile phones and YMTC, the domestic leader in NAND, is back to full production only two years after sanctions were thought to have crippled the company irreparably. China has a three-decade history of throwing money at the semiconductor industry with disappointing results. What might be different this time round? Ironically, the imposition of sanctions, which is forcing a new collaborative model between large, sophisticated customers and equipment players. We now expect domestic semiconductor equipment manufacturing companies Naura and AMEC to have significant opportunities ahead.

China has long-term challenges: a declining population, the need to shift the economy from investment to consumption while balancing local government debts and issues in the property sector, and its rising position in global economics and politics will bring inevitable strains. Despite this, China's rising global competitiveness has become increasingly apparent, making remarkable progress in its technological, industrial and manufacturing capabilities, and transforming from a producer of cheap, low-quality goods to a major economic power leading in a number of globally critical areas.

While macro-economic challenges are much talked about, it is also worth remembering the real-world forces that haven't changed and which we would argue, can be far more impactful: renewable energy cost will continue to fall, battery chemistry will improve, factories will become more automated; Gen Z will become the major consumption force. We could go on. We believe it is these structural trends which deliver the opportunity for growth that should drive returns over the long term.

There is no shortage of companies with growth potential in China. In fact, if you take all companies in the MSCI ACWI forecast to grow 20% a year over the next three years, almost one third are from China. That's a significant anomaly given that China represents less than 3% of that index. While many commentators are eager to depict these new global dynamics in black-and-white terms, such over-simplification risks distracting investors from assessing opportunities on their own merits in the day-to-day, complex and nuanced world in which Chinese companies do business.

Performance

The portfolio underperformed the MSCI China A Onshore index over the quarter. While the portfolio's positioning in industrials contributed to performance, this was offset by strong performance of financials, a sector in which the portfolio is significantly underweight, and strong performance of IT names not held.

Given market volatility and the short-termism inherent in China's A share market, we'd caution against reading too much into quarterly moves which often reflect sentiment rather than fundamentals. The top contributors to performance were Shenzhen Megmeet, CATL and Anker Innovations. Megmeet was a detractor last quarter.

Shenzhen Megmeet makes power supply and electric automation products for both industrial and consumer electronics clients. The company recently announced that it had been selected as a supplier to Nvidia which contributed to the strong share price.

CATL is the world's leading battery manufacturer for electric vehicles and energy storage systems which has successfully managed through a two-year cyclical downturn in the battery sector and its operating results evidence its technological leadership and ongoing growth potential.

Anker Innovations is a consumer electronics manufacturer with leading products in battery charging and smart devices. The company continue to report strong growth and new product development, though as a Chinese exporter to the US, the uncertainty around tariffs adds a note of caution to our enthusiasm.

The top detractors from performance were Sungrow Power, Centre Testing and Proya Cosmetics. Sungrow was a top contributor last quarter. Centre Testing was amongst the top detractors in Q2 and then a top contributor in Q3.

Sungrow is a leader in renewable energy technology and the world's largest provider of solar power inverter systems. Weak short-term performance was likely driven by an uncertain demand outlook which led to near term earnings downgrades. Long-term, however, the company a significant unit cost advantage over competitors which should support continued growth in global market share in an environment with a strong energy storage system (ESS) installation demand outlook.

Centre Testing is one of China's leading testing, inspection and certification companies, continuing to grow market share during a difficult economic backdrop. After a strong rally last quarter on the government stimulus package, a near term focus on the pricing environment and local government funding constraints likely weighed on sentiment, and thus the share price, this quarter.

Proya is a leading domestic cosmetics company. Asides from broader industry concerns around China's domestic consumption environment, it is difficult to identify reasons for its underperformance this quarter. Earnings growth in the nine months to end September was +34% year-on-year.

As we look forward to a new year, it is one which starts with significant uncertainty. Will the Chinese government continue to provide the necessary stimulus required to boost consumer confidence, underpin the property sector and restart the domestic economy? What does a Trump government in the US mean for global geopolitics and the prospect for either tariffs on China or greater trade with China? Having spent thirty years investing in Chinese companies at Baillie Gifford, we focus our efforts not on the big picture stories that are often in the news, but on the often-overlooked long-term trends which underpin opportunities for companies' growth. And it is clear Chinese companies are important to many of the biggest global trends we expect to see in coming years.

Performance Objective

Long-term capital appreciation, outperform the Index after fees over rolling five year periods..
The performance objective is aspirational and is not guaranteed. We don't use it to compile the portfolio and returns will vary. A single performance objective may not be appropriate across all vehicles and jurisdictions. We may not meet our investment objectives if, for example, our growth investment style is out of favour, or we misjudge the long-term earnings growth of our holdings.

Periodic Performance

GBP	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	-2.7	1.7	-4.5
1 Year	-4.5	13.9	-18.4
3 Year	-18.3	-7.9	-10.4
5 Year	-0.4	2.2	-2.6
Since Inception	3.2	3.7	-0.5

USD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	-9.2	-5.0	-4.2
1 Year	-6.1	11.9	-18.0
3 Year	-20.4	-10.3	-10.2
5 Year	-1.5	1.1	-2.6
Since Inception	2.1	2.6	-0.5

EUR	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	-2.1	2.4	-4.5
1 Year	0.1	19.4	-19.3
3 Year	-17.9	-7.4	-10.5
5 Year	0.1	2.7	-2.6
Since Inception	3.8	4.3	-0.5

CAD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	-3.3	1.1	-4.4
1 Year	2.4	22.1	-19.7
3 Year	-16.9	-6.3	-10.6
5 Year	0.6	3.2	-2.6
Since Inception	3.7	4.1	-0.5

AUD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	1.8	6.4	-4.7
1 Year	3.4	23.3	-19.9
3 Year	-16.0	-5.3	-10.7
5 Year	1.1	3.7	-2.6
Since Inception	4.6	5.1	-0.5

Annualised periods ended 31 December 2024. 3 Month & 1 Year figures are not annualised.
Inception date: 28 February 2019
Figures may not sum due to rounding.
Benchmark is MSCI China A Onshore Index.
Source: Revolution, MSCI.
The China A Shares composite is more concentrated than the MSCI China A Onshore Index.

Discrete Performance

GBP	31/12/19-31/12/20	31/12/20-31/12/21	31/12/21-31/12/22	31/12/22-31/12/23	31/12/23-31/12/24
Composite Net (%)	83.6	-1.9	-20.1	-28.6	-4.5
Benchmark (%)	36.0	5.2	-17.9	-16.5	13.9

USD	31/12/19-31/12/20	31/12/20-31/12/21	31/12/21-31/12/22	31/12/22-31/12/23	31/12/23-31/12/24
Composite Net (%)	89.5	-2.8	-29.0	-24.4	-6.1
Benchmark (%)	40.3	4.2	-27.1	-11.5	11.9

EUR	31/12/19-31/12/20	31/12/20-31/12/21	31/12/21-31/12/22	31/12/22-31/12/23	31/12/23-31/12/24
Composite Net (%)	73.8	4.6	-24.4	-26.9	0.1
Benchmark (%)	28.7	12.1	-22.3	-14.5	19.4

CAD	31/12/19-31/12/20	31/12/20-31/12/21	31/12/21-31/12/22	31/12/22-31/12/23	31/12/23-31/12/24
Composite Net (%)	86.2	-3.6	-23.9	-26.4	2.4
Benchmark (%)	37.8	3.3	-21.8	-13.8	22.1

AUD	31/12/19-31/12/20	31/12/20-31/12/21	31/12/21-31/12/22	31/12/22-31/12/23	31/12/23-31/12/24
Composite Net (%)	72.6	3.2	-23.9	-24.8	3.4
Benchmark (%)	27.8	10.6	-21.8	-12.0	23.3

Benchmark is MSCI China A Onshore Index.
Source: Revolution, MSCI.
The China A Shares composite is more concentrated than the MSCI China A Onshore Index.

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to 31 December 2024

Stock Name	Contribution (%)
Shenzhen Megmeet Electrical	2.8
CATL	0.5
Anker Innovations Technology	0.5
Kweichow Moutai	0.5
Midea Group	0.4
Jiangsu Azure Corp	0.4
Oppein Home Group	0.4
Yibin Wuliangye	0.2
Guangdong KinLong Hardward Products	0.1
SF Holding	0.1
Proya Cosmetics	-0.8
Sungrow Power	-0.7
Centre Testing	-0.6
SG Micro	-0.5
Guangzhou Kingmed Diagnostic	-0.4
Hangzhou Tigermed Consulting	-0.4
CAMBRICON TECHNOLOGIES CORPORA	-0.4
Zhongji Innolight 'A' - Stock Connect	-0.4
Sinocare	-0.3
EAST MONEY INFORMATION TECH - A	-0.3

One Year to 31 December 2024

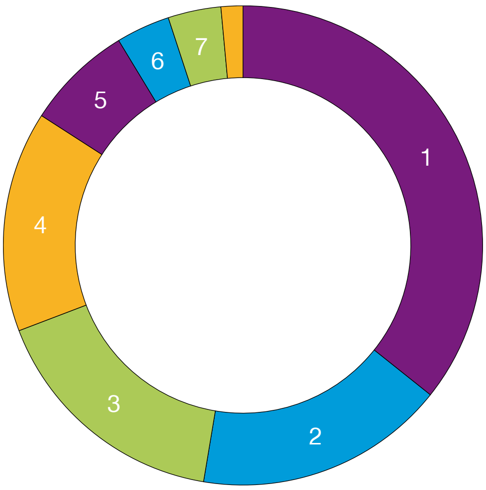
Stock Name	Contribution (%)
Shenzhen Megmeet Electrical	2.6
CATL	2.3
Midea Group	1.5
Anker Innovations Technology	0.6
Ping An Insurance	0.4
Byd Company	0.4
Luzhou Laojiao	0.2
Jiangsu Azure Corp	0.2
CHONGQING ZHIFEI BIOLOGICAL PR - A	0.2
SHENZHEN MINDRAY BIO-MEDICAL E	0.2
Sanhua Intelligent Controls	-3.5
Guangzhou Kingmed Diagnostic	-2.1
Shenzhen Inovance	-1.9
Asymchem Laboratories	-1.5
Glodon	-1.3
Yonyou	-1.2
WuXi AppTec	-1.1
Yifeng Pharmacy Chain	-1.0
Sinocare	-0.9
Centre Testing	-0.9

Source: Revolution, MSCI. China A Shares composite relative to MSCI China A Onshore Index.
The holdings identified do not represent all of the securities purchased, sold or held during the measurement period. Past performance does not guarantee future returns. A full list showing all holdings’ contributions to the portfolio’s performance and a description on how the attribution is calculated is available on request. Some stocks may not have been held for the whole period. All attribution figures are calculated gross of fees, relative to the index from stock level up, based on closing prices. As attribution is shown relative to the benchmark, not all stocks shown are held in the portfolio.

Top Ten Holdings

Stock Name	Description of Business	% of Portfolio
Midea	Household appliance manufacturer	9.8
CATL	Battery manufacturer	9.6
Kweichow Moutai	Chinese spirits manufacturer	8.3
Shenzhen Inovance Technology	Industrial machinery manufacturer	5.5
Shenzhen Megmeet Electrical	Provider of industrial automation tools	3.8
Ping An Insurance	Chinese insurance	3.6
Anker Innovations	Electronics manufacturer	3.6
Centre Testing International	Provides testing and verification services	3.3
Proya Cosmetics	Chinese cosmetics	3.2
Sinocare	Chinese manufacturer of biosensor products	3.2
Total		54.1

Sector Weights



		%
1	Industrials	35.7
2	Information Technology	16.9
3	Consumer Staples	16.6
4	Consumer Discretionary	14.9
5	Health Care	7.2
6	Financials	3.6
7	Materials	3.6
8	Cash	1.5

Figures may not sum due to rounding.

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	17	Companies	1	Companies	1
Resolutions	117	Resolutions	1	Resolutions	1

Company Engagement

Engagement Type	Company
Environmental	Ping An Insurance (Group) Company of China, Ltd., Zijin Mining Group Company Limited
Social	Guangzhou Kingmed Diagnostics Group Co., Ltd., Ping An Insurance (Group) Company of China, Ltd., Zijin Mining Group Company Limited
Governance	Guangzhou Kingmed Diagnostics Group Co., Ltd., Kweichow Moutai Co., Ltd., Ping An Insurance (Group) Company of China, Ltd., SG Micro Corp, Zijin Mining Group Company Limited
Strategy	Guangzhou Kingmed Diagnostics Group Co., Ltd., Ping An Insurance (Group) Company of China, Ltd., Zijin Mining Group Company Limited

Company	Engagement Report
Guangzhou Kingmed Diagnostics Group Co., Ltd.	Objective: The company approached us for suggestions to incorporate environmental, social and governance (ESG) indicators into business metrics systematically through top-level design. Discussion: We explored several critical areas for Kingmed, focusing on their role as a leading provider of medical diagnostic services. Key topics included enhancing data security, improving talent attraction and retention strategies, ensuring product quality and innovation, and managing medical waste compliantly. Given the healthcare sector's frequent interactions with government officials and hospitals, we stressed the importance of robust business ethics and anti-corruption measures. Establishing effective internal controls is essential to mitigate these risks. We identified inclusive healthcare as a significant area where Kingmed can contribute positively from a social perspective. During the exchanges, we also shared the external rating agencies that we utilise for additional information input sources. Outcome: We are encouraged by Kingmed's attempts to enhance their ESG management practices and integrate these principles into their core business strategies. Their recognition of us as long-term, supportive investors is greatly appreciated, and we are excited to continue providing our insights and expertise to support Kingmed's sustainable journey.
Ping An Insurance (Group) Company of China, Ltd.	Objective: To deepen our understanding of Ping An's sustainability strategies and practices with a focus on its social inclusive finance products. Discussion: We met with Ping An Group's environmental, social and governance (ESG) manager and discussed how they design social inclusive finance into their business lines. We learned that Ping An adopt a dynamic model with careful considerations of the status quo in different cities and update the design of products to accommodate the needs of people in addition to the basic insurance provided by the government. The revitalisation assistance funds of RMB 40 billion are mostly social bank loans provided to rural state-owned enterprises (SOEs) and farmers with Ping An providing additional training to increase their financial literacy. Ping An also shared the latest numbers regarding hospitals and doctors in the health and senior care ecosystem that they have started building since 2014. Other topics we touched upon during the meeting included the impact of digitalisation on agents and business volumes, Ping An's traceability system to alert natural disasters, the disclosure of financed emissions of Ping An Bank, projects financed by Ping An on carbon capture technologies and biodiversity conservation, and the expertise of its supervisory committee. Outcome: We appreciate Ping An's efforts to offer assistance and training to rural recipients by leveraging its financial power. We now have a better understanding of the social welfare system in China and Ping An's role in bringing additional benefits to address the underprivileged groups. Ping An thanked us for our suggestion on disclosing the underperforming data which they found valuable. We believe Ping An's commitment to social and environmental aspects reinforces its long-term financial opportunity by aligning with stakeholders' interests and supporting a sustainable future operating environment.

Company	Engagement Report
Zijin Mining Group Company Limited	Objective: To re-emphasize our expectations for disclosure on human rights auditing by April 2025 and to understand how Zijin influences overseas mines in which the company does not directly operate. Discussion: In addition to our previous thorough engagement on the Group's domestic sustainability practices, we discussed more about Zijin's overseas social and environmental challenges and how the company is overcoming them. Zijin stressed that community relationship building is and will always be the most material topic to gain the social license to operate and relentless efforts have been dedicated on this front, such as addressing the needs of the surrounding communities and seeking support from the local governments. Zijin is also working with international non-governmental organisations (NGOs) for constructive suggestions and managing its reputation. There are many mining projects globally in which Zijin is a shareholder rather than an operator. Take the Porgera mine in PNG as an example, Zijin has appointed two senior managers to sit on the board to influence the decisions. ESG matters are discussed at the board about twice every quarter. Barrick, the direct operator at the mine, has disclosed a roadmap to eliminate the problematic river tailings disposal method by 2028 partially thanks to Zijin's influence. Outcome: Knowing the details of on-the-ground practices of how Zijin's overseas subsidiaries tackle social and environmental issues is very helpful for us to be more assured that the company is upholding its commitments to sustainable mining. We appreciate the company's proactive approaches to reaching out to external NGOs and agencies for suggestions and reputation management. Zijin is well aware of our expectations for human rights-related disclosure and our timeline for it. The company promised to report once the information is reviewed by its US legal counsels. We will look out for the disclosure in the next year's reporting season

Votes Cast in Favour

Companies	Voting Rationale
3Peak 'A' - Stock Connect, Anker Innovations 'A', BYD Company 'A' - Stock Connect, CATL 'A', Hangzhou Tigermed Consulting 'A', Kweichow Moutai 'A', LONGi Green Energy Technology 'A', Longshine Technology 'A' - Stock Connect, Midea Group 'A', NAURA Technology Gp 'A' - Stock Connect, Oppein Home Group Inc, SF Holding 'A' - Stock Connect, Sanhua Intelligent Controls 'A', Shanxi Xinghuacun Fen Wine 'A' - Stock Connect, Sinocare 'A', Sungrow Power Supply 'A' - Stock Connect, Yifeng Pharmacy Chain 'A' - Stock Connect	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
LONGi Green Energy Technology 'A'	EGM 30/12/24	3	We opposed the provision of guarantees because the level of guarantees to be provided to the Company's subsidiaries is disproportionate to the company's level of ownership, with no counter-guarantee, and therefore could expose the company to inappropriate risk.

Votes Abstained

Company	Meeting Details	Resolution(s)	Voting Rationale
LONGi Green Energy Technology 'A'	EGM 30/12/24	5	We abstained on the proposed investment due to a lack of information regarding the choice of instruments.

Votes Withheld

We did not withhold on any resolutions during the period.

New Purchases

Stock Name	Transaction Rationale
Advanced Micro-Fabrication 'A' - Stock Connect	Advanced Micro-Fabrication Equipment, or AMEC, is one of China's leading semiconductor production equipment suppliers. Its product quality is evidenced by a customer list which includes the world's leading foundry, TSMC. The company is quickly narrowing the technological gap with its global competitors' offerings. As Chinese authorities focus on increasing domestic self-sufficiency, and local sourcing becomes more critical for mainland chip foundries, we expect AMEC to do especially well. Indeed, it has both the financial heft and organisational skill to invest large sums in R&D productively, which is helping it broaden its range of front-end chip fabrication equipment profitably. Given the weakness in the broader Chinese market, the company has seen its valuation de-rate over the past three years, but its operational outlook is still strong. With the scope for renewed enthusiasm by mainland investors, we believe this to be an opportune time to take a new holding.
NAURA Technology Gp 'A' - Stock Connect	Naura is a leading etch and deposition equipment manufacturer in China and a company that is strongly aligned with Beijing's long term goal of self-sufficiency in semiconductors. It operates in a segment of the semiconductor industry that remains dominated by foreign competitors such as Applied Materials. Its technological and innovation capability appears to be accelerating and, as such, we believe it is likely to benefit from growth in the overall market in addition to significant share gain. Growth in the overall market is likely to be driven by artificial intelligence and high performance computing and, in etch and deposition specifically, via increasing intensity of equipment use at lower semiconductor nodes. If successful, we should expect profit and cash flow to grow faster than revenue as the company benefits from significant operating leverage. The company was established in 2001 by Beijing Electronics Holdings and, although it is an SOE, it has a strong track record of good capital allocation and significant investment in research and development. We do not believe the valuation adequately reflects the opportunity on offer and have therefore decided to take a holding.
Zhongji Innolight 'A' - Stock Connect	Zhongji Innolight manufactures optical transceivers. Its products are a crucial component in AI chip training clusters and are used in hyperscale datacentres and in the training of large language models. The company is likely to continue benefiting from growth in global AI-related capex and datacentre build out. In addition, we believe the potential uptick in Chinese AI-capex is on the horizon and should lead to even stronger growth for the company going forward. Its technological edge has been verified by leading global customers such as Amazon and Google. Indeed, Innolight has a strong first mover advantage and a close working relationship with its customers which helps it retain its technological lead. Whilst pricing is generally deflationary, Innolight has a history of delivering significant technological upgrades with the launch of its new products and thereby an ability to benefit from better pricing, margins and returns. We do not believe the current valuation factors in the long term growth for the company and therefore have decided to take a holding.

Complete Sales

Stock Name	Transaction Rationale
Guangdong KinLong Hardware 'A'	Kinlong is the largest door and window hardware supplier in China. We bought the company in the expectation that it could displace traditional distributors within the building materials market. It benefited from the largest direct sales network and a leading ecommerce site. However, the downturn in China's real estate market has impacted the demand for its products to a much greater degree than we initially expected, whilst the company has been much slower to take share from competitors than we had hoped. As such, its operational performance has been weak. In the last month, the shares have appreciated by approximately 40% after stimulus measures were announced by Beijing. Whilst a stabilisation in the real estate industry is now much more likely, we believe that the appreciation in the company's shares has largely factored this in, whilst absolute growth will remain somewhat challenging. We have decided to sell the shares.
Hefei Meyer Optoelectronic 'A' - Stock Connect	Hefei Meyer Optoelectronic is the largest manufacturer of colour sorters and dental cone beam computed tomography (CBCT) machines in China. The initial investment case was built on the expectation that rapid growth of China's dental market driven by an aging population, higher discretionary spending and greater supply of service providers would meaningfully increase the addressable market of dental CBCTs. However, the government's decision to implement volume based purchasing resulted in significant price deflation and increased competition. The growth and profit pool opportunity for Hefei Meyer is therefore materially smaller than we had expected. As such, we have decided to take advantage of the recent appreciation in the shares to sell the holding and reinvest the proceeds in stocks where our conviction in the long term growth opportunity is higher.
Iflytek 'A' - Stock Connect	IFlytek is China's leading speech software company and a domestic leader in the advanced fields of machine learning and artificial intelligence. The shares have performed well recently despite the fact that the company's ability to generate revenue from its technological leadership has largely undershot our expectations. We have taken this opportunity to sell this holding and reinvest the proceeds in a number of new ideas that are likely to see greater operational impact from growth in demand for semiconductors caused by artificial intelligence.
Longshine Technology 'A' - Stock Connect	Longshine Technology is an independent software provider to the State Grid, the monopolistic grid operator in China. Longshine also provides utility-related services to Alipay, consumers and SMEs (small and medium size enterprises). The context behind the investment in Longshine was that China's electricity market was in need of serious reform given the likely increase in the share of renewable energy as part of China's energy matrix. More specifically, investments were needed at the State Grid to upgrade its ability to handle intermittent power sources and to price them accordingly. As the leading software provider to State Grid, Longshine was likely a key beneficiary. We now believe that the reform and investment process will take much longer than we had initially anticipated due to capital constraints at State Grid. Indeed, Longshine is facing pricing pressure and increased competition as a result and the medium term outlook has deteriorated quite substantially. We have therefore decided to take advantage of the recent c. 65% increase in the share price to sell the holding.
Quectel Wireless Solutions Co 'A' Stock Connect	Quectel Wireless Solutions is the largest supplier of communication modules. Communication modules are used in almost all devices which transmit data and therefore the Internet of Things is a key application globally. We bought the shares post weakness in the company's margin and cash flow which resulted from investments in 5G deployment and from the semiconductor chip shortage. Unfortunately, we underestimated the degree to which operational performance would suffer and our investment thesis did not play out. The company is now profitable and has returned to growth, which has supported a degree of share price performance, but we do not believe the business meets our quality hurdle. As such, we have sold the holding.

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