Baillie Gifford™

China Quarterly Update

31 March 2024

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Historical performance results for investment indexes and/or categories, generally do not reflect the deduction of transaction costs and/or custodial charges or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing historical performance results.
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.

The commentary relates to the above mentioned strategy and not all stocks mentioned may be held in the portfolio.

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Product Overview

China is a regional equity strategy that adds value through active management by identifying and exploiting inefficiencies in growth companies.

Risk Analysis

Key Statistics	
Number of Holdings	55
Typical Number of Holdings	40-80
Active Share	70%*
Rolling One Year Turnover	16%

*Relative to MSCI China All Shares Index. Source: Baillie Gifford & Co, MSCI.

Baillie Gifford Key Facts

Assets under management and advice	US$290.9bn
Number of clients	655
Number of employees	1817
Number of investment professionals	393

Many things such as regulation, the more public prominence of the Chinese Communist Party (CCP), geopolitics and the domestic economy have changed in recent years, but there are a number of things that haven't. Linda Lin, investment partner and Head of the China team, returned to China in January with colleagues from our global and emerging markets strategies for some additional perspectives. Our travels, alongside insight from on the ground, continue to highlight an entrepreneurial spirit driving companies to challenge entrenched incumbents, and the huge spoils available to domestic victors.

While China's Gross Domestic Product (GDP) forecasts, property sector and the Taiwanese elections may have dominated column inches this quarter, it has arguably overshadowed a number of portfolio companies in sectors ranging across the energy transition, advanced manufacturing, digitisation, innovative healthcare and consumer brands that are reporting strong growth. In 2023, revenues and net profits at PDD were up 90% year-on-year, CATL's net profits were up 43%, Beigene reported 75% revenue growth, Anker Innovations grew its net profits 55% over the same period, and Kuaishou reported revenue growth of 20% in 2023 and turned a loss of RMB13.7bn in 2022 into a net profit of RMB6.7bn.

We believe in growth and innovation. We believe that long-term returns accrue to companies benefiting from secular and disruptive trends that play out over longer time frames than most market participants are willing or able to contemplate. While this approach has proved challenging in recent times as valuations have diverged from individual company performance, we continue to be excited about opportunities in the portfolio and are aware that this approach will require patience.

Macro-economic concerns can overwhelm discussions but are rarely a feature in meetings with corporate management. The founders and management of Alibaba, Meituan, PDD, Kuaishou and others met on the trip continue to highlight that regulatory headwinds are turning into tailwinds. The government has reiterated support for the private sector and foreign investment through levelling the playing field and easing entry barriers, pledging to create a stable, transparent, and predictable policy environment. This is clearly helpful in an environment in which there is scepticism around China's regulatory intentions. A reduction in regulatory risk premium on Chinese big tech companies should support an improvement in valuation multiples.

The 'Two Sessions' in March, China's annual meetings of China's legislature (NPC) and political advisory body (CPPCC), saw Premier Li's inaugural delivery of the government's approach to its economy, politics and foreign policy. We'd argue there is far too much time and effort spent analysing China's GDP growth target, which at 'around 5% in 2024' is largely as expected yet may be challenging given a higher base in 2023 and relatively underwhelming stimulus. The status quo is doing little to inspire confidence that the government can solve the economic problems, but weak momentum may suggest we're closer to more concerted action.

Industrial policy unusually took top billing in the government work report, with the focus on "new productive forces" relegating macro-economic policy to second place in the priority list. This is particularly relevant to the portfolio, where a number of holdings should benefit, over time, from proposals to consolidate and expand China's leading position in intelligent connected Neighbourhood Electric Vehicles (NEVs), accelerate the development of emerging sectors such as hydrogen energy, new materials, and innovative pharmaceuticals. For the digital economy, China will deepen research and application of big data, artificial intelligence, and other technologies. It will also promote digital transformation in the manufacturing and service industry, and support platform economy companies to play a significant role in promoting innovation, increasing employment, and competing internationally. This should all bode well for a portfolio built to maximise China's growth opportunities in such areas.

Although the macro discussions are often irrelevant to the fortunes of individual companies, the context can be important in understanding market moves. The column inches dedicated to discussion of elections in Taiwan in January were far fewer than one might have imagined, with the incumbent Democratic Progressive Party's re-election largely expected, but softened by the first divided government in 16 years and the installation of Taiwan's most China-friendly politician as speaker of the legislative Yuan. Focus will now turn to the inauguration in May, and to the implications of US domestic politics later this year.

There is clearly a groundswell of noise around US protectionism and national security concerns in areas ranging from TikTok to genetic data to electric vehicles to Chinese-built cranes in ports. While China is grappling with an oversupply of manufactured goods and the deflationary pressures that brings at home against a backdrop of weak demand, it is also seeing increased pushback from some overseas markets that serve as the pressure release valves for that surplus.

While portfolio revenues are heavily weighted towards China's domestic demand, the holding in Wuxi Apptec was hit by ongoing concerns relating to the US Biosecure Act, which is being debated in Congress and would challenge the ability for certain Chinese companies to win contracts from federally funded entities. The holding in Asymchem was also impacted. Anker innovations is the only other holding with the majority of its revenues outside of China but is less geopolitically challenged as a pure consumer electronics brand. Our analysis also reflects potential geopolitical constraints to companies such as CATL and PDD whose growth aspirations and global market share leadership is both an opportunity and a risk. Current valuations, however, seem to reflect most of the risk and very little of the opportunity.

With geopolitics largely relegated to stock level discussions, a key driver of markets this quarter was the domestic economy. Despite reporting 5.2% GDP growth for 2023, economic indicators show a lack of momentum across many areas. China is suffering from a deficit of demand because of low wage growth, post-covid confidence and weak property sector. Equity indices were down significantly in January, and with little sign of stability in the property sector, the authorities stepped in to shore up sentiment prior to Chinese New Year. This marked an inflection point in the stock market.

The People's Bank of China cut the reserve ratio by 50 basis points. The 5-year prime mortgage rate was cut by 25bps. The chief securities market regulator was replaced. State-controlled institutions were directed to buy stocks and their leaders told that market capitalisation management was now part of their performance evaluation. We've seen a rise in buybacks both from State-Owned Enterprises (SoEs) supporting government policy and aimed at putting a floor under current prices. In the short term, this has led to investor support for SoEs, but questions remain as to whether the government can deliver a sustained rally without greater structural reform.

China's economy continues to transition away from its old model of property led growth to a new model of innovation led growth. There is clearly a risk that the government fails to manage this transition successfully. However, we remain cautiously optimistic. Stabilisation in the property sector could be very meaningful for consumer confidence, which could in turn be very meaningful for domestic demand.

Portfolio and Performance

The portfolio underperformed a relatively flat index over the quarter. The quarterly underperformance was significantly driven by January's weakness in which the index was dominated by strong performance in areas we see little attraction: energy and utility sectors.

Thankfully the inflection in February delivered a more positive outlook and the prospect that the market may start focusing on companies' operational performance, particularly going into reporting season.

Top contributors to performance included Zijin Mining, Meituan and Popmart. Zijin Mining delivered record copper and gold production in 2023 and expect to deliver additional yearly copper production of 100,000 tonnes and 10% gold production growth in the coming five years. Meituan has seen its share price fall significantly over the last year on fears over greater industry competition and a slower consumption backdrop. However, it has continued to report strong growth and management's commitment to reduce the losses from new business areas was taken positively. We visited Meituan's founder in Beijing in January and added to the shares thereafter. Popmart is a character-based entertainment company. The company reported very strong growth in revenues and profits for 2023 and provided ambitious growth targets for 2024. Popmart has a strong, and growing, line up of product aimed directly at the younger generations, a cohort with increasing consumption power and radically different tastes to their elders.

The top detractors were Silergy, Zhejiang Sanhua and PDD. Silergy, an analog chip designer, was a top performer last quarter but became a detractor during this quarter. Silergy's gross margins for the fourth quarter were lower than had been anticipated which led to lowered earnings estimates. Such volatility is expected given the cyclicality in the semiconductor sector, which can often override structural factors as drivers of the share price in the short term. However, the company projects its 2024 sales to return to normal growth of 20-30%, inventory has declined substantially and the business is recovering from cyclical lows. PDD is a fast-growing eCommerce platform which, like Silergy, was a top performer last quarter but among the top detractors this quarter. Despite delivering very strong growth for 2023, PDD's share price was hurt by negative reporting about its accounting practices and governance. Zhejiang Sanhua is the world's largest manufacturer of refrigeration control components and thermal management components, including to electric vehicles. Its share price was negatively impacted this quarter by media reports of potential upcoming US restrictions on the imports of Chinese manufactured cars. With US elections later this year, we expect geopolitical risks will remain a concern for a number of Chinese companies, albeit that the long-term structural opportunities continue.

While painful, this market volatility, when put alongside operational developments and opportunities provided by low valuations, led to a pickup in transactions this quarter. We believe the overall shape of the portfolio is exposed to a more positive macroeconomic scenario via overweight positions in both consumer discretionary and industrials but have been reducing exposure to ecommerce given slowing industry level growth and intense competition. A new purchase was made of Luckin Coffee where new management and backers have built a strong mass market brand but whose valuation reflects its history not its future. Additions were made to CATL, Kweichow Moutai, Meituan and Netease. Complete sales were made of Wuxi Apptec, JD.com and Yunnan Energy New Materials, and reductions made to Alibaba and Zijin Mining.

China has made significant progress in areas such as renewable energy, electric vehicles and, increasingly, semiconductors, highlighting the enormous growth opportunities to Chinese companies whose business strategies are aligned to China's national objectives. These opportunities are reflected in the operational performance of the companies in the portfolio, but broader sentiment has led to an extraordinary divergence between earnings and value. Despite a difficult period of performance, we continue to believe that China remains an exciting hunting ground for growth investors. With valuations low in both an absolute and relative sense, we believe that the opportunity in China has becoming even more compelling. As such, we remain optimistic about future returns.

Performance Objective

Long-term capital appreciation, outperform the Index after fees over rolling three 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	-4.1	-0.1	-3.9
1 Year	-26.2	-18.2	-7.9
3 Years	-20.4	-13.4	-7.0
5 Years	-3.4	-3.2	-0.1
10 Years	6.0	5.4	0.6
Since Inception	7.6	6.6	0.9

USD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	-4.9	-1.0	-3.9
1 Year	-24.6	-16.5	-8.1
3 Years	-22.7	-15.9	-6.8
5 Years	-4.0	-3.8	-0.1
10 Years	3.1	2.5	0.6
Since Inception	5.6	4.7	0.9

EUR	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	-2.8	1.2	-4.0
1 Year	-24.1	-16.0	-8.2
3 Years	-20.5	-13.5	-7.0
5 Years	-3.2	-3.1	-0.1
10 Years	5.7	5.1	0.6
Since Inception	6.2	5.3	0.9

CAD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	-2.4	1.6	-4.0
1 Year	-24.6	-16.5	-8.1
3 Years	-20.8	-13.8	-7.0
5 Years	-3.7	-3.6	-0.1
10 Years	5.2	4.7	0.6
Since Inception	6.7	5.7	0.9

AUD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	-0.6	3.5	-4.1
1 Year	-22.6	-14.2	-8.3
3 Years	-18.6	-11.5	-7.2
5 Years	-2.3	-2.2	-0.1
10 Years	6.8	6.2	0.6
Since Inception	6.4	5.5	0.9

Annualised periods ended 31 March 2024. 3 Month & 1 Year figures are not annualised.
Inception date: 28 February 2006
Figures may not sum due to rounding.
Benchmark is MSCI China All Shares Index (MSCI All China Index prior to 27 November 2019, MSCI Golden Dragon Index to 02 May 2019).
Source: Revolution, MSCI.
The China composite is more concentrated than the MSCI China All Shares Index.

Discrete Performance

GBP	31/03/19-31/03/20	31/03/20-31/03/21	31/03/21-31/03/22	31/03/22-31/03/23	31/03/23-31/03/24
Composite Net (%)	4.8	59.7	-28.7	-4.2	-26.2
Benchmark (%)	-0.3	31.2	-20.5	-0.2	-18.2

USD	31/03/19-31/03/20	31/03/20-31/03/21	31/03/21-31/03/22	31/03/22-31/03/23	31/03/23-31/03/24
Composite Net (%)	-0.3	77.7	-32.0	-10.1	-24.6
Benchmark (%)	-5.1	46.0	-24.1	-6.3	-16.5

EUR	31/03/19-31/03/20	31/03/20-31/03/21	31/03/21-31/03/22	31/03/22-31/03/23	31/03/23-31/03/24
Composite Net (%)	2.0	65.9	-28.1	-7.9	-24.1
Benchmark (%)	-2.9	36.3	-19.8	-4.0	-16.0

CAD	31/03/19-31/03/20	31/03/20-31/03/21	31/03/21-31/03/22	31/03/22-31/03/23	31/03/23-31/03/24
Composite Net (%)	6.2	56.9	-32.4	-2.6	-24.6
Benchmark (%)	1.1	29.0	-24.6	1.6	-16.5

AUD	31/03/19-31/03/20	31/03/20-31/03/21	31/03/21-31/03/22	31/03/22-31/03/23	31/03/23-31/03/24
Composite Net (%)	15.7	42.8	-31.0	0.8	-22.6
Benchmark (%)	10.1	17.4	-23.0	5.1	-14.2

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

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to 31 March 2024

Stock Name	Contribution (%)
ZiJin Mining	0.6
Meituan	0.5
Midea	0.4
China Merchants Bank	0.3
CATL	0.3
Pop Mart International Group	0.3
Brilliance China Automotive	0.3
Wuxi Biologics	0.2
Weichai Power	0.2
NIO	0.2
Silergy	-0.6
Shandong Sinocera Functional Material	-0.6
Zhejiang Sanhua Intelligent Controls	-0.5
PDD Holdings	-0.5
WuXi AppTec	-0.4
SG Micro	-0.4
Yonyou	-0.4
JD.com	-0.4
Sinocare	-0.3
Sunny Optical Technology	-0.3

One Year to 31 March 2024

Stock Name	Contribution (%)
ZiJin Mining	1.0
Brilliance China Automotive	0.9
Midea	0.8
Weichai Power	0.5
Fuyao Glass Industry	0.5
Wuxi Biologics	0.4
NetEase	0.4
PDD Holdings	0.3
Pop Mart International Group	0.3
Haier Smart Home	0.3
Li Ning	-1.4
Glodon Company	-1.2
JD.com	-0.9
Shandong Sinocera Functional Material	-0.7
Yonyou	-0.6
Beijing United Information Technology	-0.6
SG Micro	-0.6
Guangzhou Kingmed Diagnostics Group	-0.5
Centre Testing International	-0.4
Estun Automation	-0.4

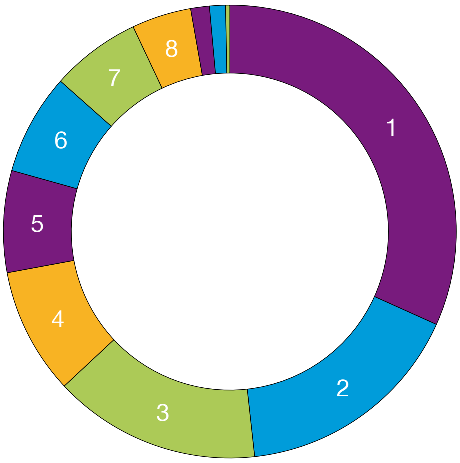
Source: Revolution, MSCI. China composite relative to MSCI China All Shares Index.
The holdings identified do not represent all of the securities purchased, sold or held during the measurement period. Past performance does not guarantee future returns. A full list showing all holdings’ contributions 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 Largest Holdings

Stock Name	Description of Business	% of Portfolio
Tencent	Technology conglomerate	10.2
Kweichow Moutai	Spirits manufacturer	6.4
Alibaba	Chinese e-commerce, cloud infrastructure, digital media, and payments.	5.3
Meituan	Chinese online services platform	5.1
PDD Holdings	Chinese e-commerce platform focused on social commerce	4.3
NetEase	Chinese online gaming company	3.2
China Merchants Bank	Chinese bank	3.2
CATL	Battery manufacturer	3.2
Midea	Household appliance manufacturer	2.8
Zijin Mining	Chinese mining company	2.7
Total		46.3

Totals may not sum due to rounding.

Sector Weights



		%
1	Consumer Discretionary	31.9
2	Industrials	16.6
3	Communication Services	14.9
4	Consumer Staples	9.1
5	Financials	7.3
6	Information Technology	7.3
7	Health Care	6.5
8	Materials	4.3
9	Utilities	1.3
10	Real Estate	1.1
11	Cash	-0.3

Totals may not sum due to rounding

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	15	Companies	1	Companies	None
Resolutions	114	Resolutions	1	Resolutions	None

We strengthened engagement with CATL around transparency, board stability and supply chain management

KE Holdings saw an upgrade to its Enviromental, Social and Governance (ESG) rating due to stronger data security measures

An in-person meeting with PDD discussed their international regulatory engagement, compliance alongside business expansion, and ESG disclosures

Company Engagement

Engagement Type	Company
Environmental	Brilliance China Automotive Holdings Limited, Contemporary Amperex Technology Co., Limited, HUAYU Automotive Systems Company Limited, Topchoice Medical Co., Inc.
Social	Contemporary Amperex Technology Co., Limited
Governance	Beijing United Information Technology Co.,Ltd., Brilliance China Automotive Holdings Limited, China Merchants Bank Co., Ltd., Contemporary Amperex Technology Co., Limited, HUAYU Automotive Systems Company Limited, LONGi Green Energy Technology Co., Ltd., Li Ning Company Limited, PDD Holdings Inc., Pop Mart International Group Limited, Proya Cosmetics Co.,Ltd., Weichai Power Co., Ltd., Yifeng Pharmacy Chain Co., Ltd.
Strategy	Brilliance China Automotive Holdings Limited, PDD Holdings Inc., Silergy Corp.

Company	Engagement Report
Beijing United Information Technology	Objective: To complement our existing insights and third-party research views by seeking management's assessment of the ongoing regulatory investigation. Discussion: The CSRC, China's highest administrative body in the Chinese securities market, began investigating the company in December last year. This was due to concerns raised by a sudden change in accounting policy that led to a significant difference between its expected and reported revenues. The Shanghai Stock Exchange probed the same issue earlier in 2023, concluding in August with no financial penalty. Despite continuing to report strong earnings growth, this has raised broader governance and oversight concerns. The appointment of a new independent director to lead the Auditing Committee is claimed to be a step towards more robust governance. This individual closely monitors progress, with senior management engaging in proactive government relations to better navigate regulatory landscapes. Additionally, the company is exploring funding options through its private entity to mitigate financial risks. The company hoped that the conclusion of the CSRC's investigation and its findings could be publicly disclosed by the time the Annual Report 2023 is released, providing clarity and potentially restoring stakeholder confidence. Outcome: Actively engaging with regulatory bodies demonstrates a commitment to improving governance. Given the results of the previous probe, we feel it will remain an accounting disclosure issue rather than a severe disclosure fraud. To prevent such issues from reoccurring, we believe steps should be taken to enhance the expertise of key financial oversight roles, which we will keep monitoring and engaging on. The forthcoming disclosure of the investigation's results will be crucial for informed decision-making and confidence in the company's growth trajectory. The team has decided to review the investment case again after the disclosure.
CATL	Objective: To engage with a new member of Investor Relations focused on CATL's major institutional investors, share our ESG expectations and get updates on material ESG topics regarding the company's net zero pathway and supply chain management. Discussion: The conversation focused on three core areas: achieving carbon neutrality in core operations by 2025 and across value chains by 2035 through enhanced green power utilisation; amplifying the audit programme's scope for supply chain oversight; and, assimilating feedback from ESG-focused stakeholders. CATL's green power utilisation stood at 26.6 per cent in 2022 and is anticipated to see a significant uptick for 2023, propelled by increased solar and wind energy contracts and the integration of renewable energy sources in new factories. The discussion also explored the audit programme's operational breadth and supplier selection criteria, revealing a gap in readily available data and prompting a commitment to deeper analysis. Governance discussions touched on board stability, with a commitment to follow up specifically on the recent departure of four directors. Outcome: This ESG-centric engagement with CATL is a positive step towards deepening a mutual understanding of expectations and laid the groundwork for advanced ESG disclosures and practices.

Company	Engagement Report
PDD Holdings	Objective: To gain further insights from PDD including international regulatory engagement, compliance alongside business expansion, and ESG disclosure. Discussion: In January, investors met with PDD's Head of Capital Markets and talked about its ESG-related strategies. PDD emphasised its commitment to openness in engaging with consumer protection authorities in the US, UK, and EU. Despite challenges linked to their Chinese origins, there's a proactive stance towards regulatory and media inquiries, with a system in place to remove dubious products, leveraging their Chinese supply chain knowledge. Although still in the early stages, the company are receptive to feedback on ESG topics, whilst acknowledging that they will need to evolve in tandem with their global business growth. They appointed a Dutch independent director specialising in food safety and toxicology in August 2023. It was helpful for investors to have discussions with the company which contrasts with some external commentary. The backdrop of intense scrutiny and the potential for regulatory challenges were acknowledged, highlighting the complex environment in which they operate. Outcome: The meeting provided additional insights into the company's strategic approach to regulatory transparency, compliance, and ESG disclosures. We will follow up with the company further on sustainability and supply chain management and encourage more standardised ESG reporting.

Votes Cast in Favour

Companies	Voting Rationale
Anker Innovations 'A', Asymchem Laboratories 'A', Centre Testing 'A' - Stock Connect, Dongguan Yiheda Automation Co 'A', Estun Automation 'A', Fuyao Glass Industry Grp 'H', Guangdong KinLong Hardware 'A', Guangzhou Kingmed 'A', Huayu Auto Systems 'A', Midea Group 'A', Sinocare 'A', Sinocera Material 'A', WuXi AppTec 'H', Yifeng Pharmacy Chain 'A' - Stock Connect, Yunnan Energy New Material 'A'	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
Guangzhou Kingmed 'A'	EGM 31/01/24	5.1	We opposed the election of one director because we have concerns over his suitability to serve on the board as he was criticised by Shanghai Stock Exchange.

Votes Abstained

We did not abstain on any resolutions during the period.

Votes Withheld

We did not withhold on any resolutions during the period.

New Purchases

Stock Name	Transaction Rationale
Luckin Coffee	Luckin is the largest coffee company in the China, having recently overtaken Starbucks. The company was delisted and the founder expelled after fraudulent sales were revealed in 2020, however the new management team and backers have saved the business and built an exceptional mass market beverages brand. We met some of the new management and backers in China, and assess that the company still has years of growth ahead of it, and scope to increase profits further. A result of its controversial past, the company is still traded off-exchange in the US, but ample liquidity is available to make an investment. Continued operational growth and the prospect of a substantial re-rating in such an event make this potentially a very attractive investment.

Complete Sales

Stock Name	Transaction Rationale
Glodon Company	We sold the small holding in the local line of Glodon, which had been used to access the stock at a time when foreign ownership limits prevented us from using Stock Connect. As foreign ownership has fallen, this was no longer needed. We continue to hold the primary line of stock.
JD.com	JD is an ecommerce platform and retailer with particular strengths in logistics and a focus on top tier cities. The weaker economic backdrop and regulatory challenges for big tech companies in China have exacerbated competitive challenges and slowed growth in the sector. Although JD has net cash and a low valuation, it is unclear that its growth profile is sufficient to meet our investment requirements. We have decided to sell the position and consolidate into holdings which we believe are better placed to deliver profitable growth over the long-term.
WuXi AppTec	Wuxi Apptec is a global leader in outsourced drug research, development and manufacturing. Its technological competence and attractive cost base have enabled it to forge close relationships with a broad customer base, including global pharmaceutical companies and biotech start-ups. This competitive edge has resulted in the company taking significant share in the world's largest pharmaceutical market, the US. Wuxi now generates approximately 65% of revenue from this market. Unfortunately, we believe that this revenue and the company's future growth may now be at risk due to the Biosecure Act being debated in Congress. The Act was proposed in early 2024 and, if passed, would block US government agencies and contractors from doing business with Wuxi. Wuxi does not rely heavily on US government contracts, but many of its large US customers do. As such, Wuxi may lose these customers, along with any funding that it receives for its US facilities. More intangibly, the company's reputation globally may have been impacted negatively by the Act thereby limiting future growth. Whilst there is a chance that, on this occasion, the Act will be watered down or not passed into law, we worry that similar headwinds will continue to plague the company and that the reputational damage may have already been done. The valuation has corrected significantly since the beginning of the year but does not reflect what we believe to be the company's reduced growth opportunity or the likely operational impact on the company if the Act is passed in its current form. As such, we have decided to sell the shares.
Yunnan Energy New Material	Yunnan Energy New Material is a leading manufacturer of separators for lithium-ion batteries. The investment case was built around China's leadership in electric vehicle sales, scale in its supply chains and the large growth opportunity this offered. A recent assessment of the portfolio's holdings in the sector highlighted a growing concern around pricing pressure within the separator market both from competitors and from customers, as well as lower conviction in Yunnan Energy's competitive advantages relative to other portfolio holdings. As such, we have decided to sell the holding and use the proceeds to add to the position in CATL.

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