

## Baillie Gifford China Fund

31 December 2024

### About Baillie Gifford

<b>Philosophy</b>	Long-term investment horizon A growth bias Bottom-up portfolio construction High active share
<b>Partnership</b>	100% owned by 58 partners with average 20 years' service Ownership aligns our interests with those of our clients Enables us to take a thoughtful, long-term view in all that we do Stability, quality and consistency

### Investment Proposition

The Fund aims to invest in an actively managed portfolio of Chinese market stocks. We invest on a long-term (5 year) perspective, and have a strong preference for growth. We are looking for significant upside in each stock that we invest in. The process is driven by rigorous, fundamental, bottom-up analysis undertaken by our dedicated Emerging Markets Team. The fund managers draw on this analysis, as well as insights gleaned from discussion with all of Baillie Gifford's global investors, to produce a portfolio that typically holds 40-80 stocks.

### Fund Facts

Fund Launch Date	19 November 2008
Fund Size	£212.7m
IA Sector	China/Greater China
Active Share	68%*
Current Annual Turnover	30%
Current number of stocks	55
Stocks (guideline range)	40-80

\*Relative to MSCI Golden Dragon Index to 02/05/2019, MSCI All China Index to 26/11/19 thereafter MSCI China All Shares Index. Source: Baillie Gifford & Co, MSCI.

### Fund Manager

Name	Years' Experience
Linda Lin*	14
Sophie Earnshaw	14

\*Partner

## Fund Objective

To outperform (after deduction of costs) the MSCI China All Shares Index, as stated in sterling, by at least 2% per annum over rolling five-year periods.

The manager believes this is an appropriate target given the investment policy of the Fund and the approach taken by the manager when investing. In addition, the manager believes an appropriate performance comparison for this Fund is the Investment Association China/Greater China Sector.

There is no guarantee that this objective will be achieved over any time period and actual investment returns may differ from this objective, particularly over shorter time periods.

## Periodic Performance

	3 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)
Class B-Acc (%)	-1.5	11.2	-11.4	-2.3
Index (%)*	-0.3	18.8	-5.0	-0.5
Target (%)**	0.2	21.0	-3.1	1.5
Sector Average (%)***	-1.0	13.8	-8.6	-1.9

Source: FE, Revolution, MSCI. Total return net of charges, in sterling.

Share class returns calculated using 10am prices, while the Index is calculated close-to-close.

Baillie Gifford operates a single swinging price for the Fund and, therefore, may apply a dilution adjustment to the price to protect long-term investors from the costs associated with buying and selling underlying investments that result from other investors joining or leaving the Fund. This adjustment will affect relative performance, either positively or negatively.

\*MSCI Golden Dragon Index to 02/05/2019, MSCI All China Index to 26/11/19 thereafter MSCI China All Shares Index.

\*\*MSCI China All Shares Index (in sterling) plus at least 2% per annum over rolling five-year periods from 27/11/2019; from 02/05/2019 MSCI All China Index plus 2%; previously MSCI Golden Dragon plus 2%.

\*\*\*IA China/Greater China Sector.

## Discrete Performance

	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
Class B-Acc (%)	55.9	-17.7	-18.2	-23.7	11.2
Index (%)*	29.5	-12.0	-13.8	-16.4	18.8
Target (%)**	32.1	-10.2	-12.1	-14.7	21.2
Sector Average (%)***	33.6	-10.7	-16.0	-20.2	13.8

Source: FE, Revolution, MSCI. Total return net of charges, in sterling.

Share class returns calculated using 10am prices, while the Index is calculated close-to-close.

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\*\*\*IA China/Greater China Sector.

## Market Environment

Chinese equity markets rallied at the start of the quarter as government authorities delivered a coordinated package of monetary, fiscal and regulatory policy which pointed to an inflection point in China's economic outlook. While sentiment improved and we've seen a slight pick-up in areas such as property and auto sales, there is still a long way to go to see a sustainable change in household sentiment. These remain critical determining factors in China's economic and market environment. Boosting domestic demand has been elevated to the government's number one priority.

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 combination of pro-growth economic policy and emerging tailwinds of regulatory support underpins improving sentiment. 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. Balancing this, however, is an uncertainty surrounding President-elect Trump's policies towards China. This brings implications for China's economy via exports to the US, will have an impact on the required scale of domestic stimulus and adds an urgency to China's domestic innovation efforts in critical sectors.

## Performance

Over the quarter, the fund marginally underperformed the MSIC China All Shares Index. While the funds positioning in industrials contributed to performance, this was offset by strong performance of financials, a sector in which the fund is significantly underweight. At a stock level, the top contributors to performance were Shenzhen Megmeet, Pop Mart and Sunny Optical.

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.

Pop Mart is a character-based entertainment company. It 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. This has contributed to strong operational results both domestically and overseas.

Sunny Optical designs and manufactures optical related products and is the global number one producer for vehicle lens sets. After a challenging 2023, its operational performance has bounced back, supported by the stable growth of the global auto market and continued adoption of new energy vehicles and smart auto technologies.

The top detractors from performance were not owning Xiaomi, a consumer electronics manufacturer that is a large index constituent (which performed well), alongside poorer performance from Beigene and Zhongji Innolight.

Beigene is a leading cancer drug development company caught in a battle between strong operational performance and the challenges its Chinese identity brings in the current geopolitical environment. It was a top performer over the previous quarter, and one we believe requires a long-term approach.

Zhongji Innolight is a new purchase for the portfolio. It manufactures optical transceivers which are crucial components in AI chip training clusters used in data centres. The investment case is based on the growth in global AI-related capex and datacentre build out, as well as the potential uptick in Chinese AI capex. We recognise this will bring a cyclical element to short term share price performance but prefer to focus on the long-term opportunity.

### Stewardship

We continued our ongoing dialogue with Chinese copper and gold miner, Zijin Mining, a company with a significant growth opportunity ahead based on the importance of copper in the climate transition, but with challenges based around the nature and geography of its mining operations. Having visited the company's headquarters, and its mines in Xinjiang and Tibet in recent years, we met this quarter to better understand the company's influence at overseas mines where it has minority stakes. Knowing details of on-the-ground practices and how Zijin's overseas subsidiaries tackle social and environmental issues helped provide assurance the company is upholding its commitments to sustainable mining. Our engagement also sought greater disclosure in future reports.

### Notable Transactions

The Fund made reductions to companies whose share prices have performed well but where we see rising geopolitical challenges. This includes consumer electronics manufacturer, Anker Innovations, industrial company Zhejiang Sanhua, immune-oncology company Beigene and auto-glass manufacturer Fuyao Glass. In contrast, the fund added to companies benefiting from China's domestic environment, increasing exposure to ecommerce company PDD, buying new holdings in Haidilao, a hot-pot restaurant and three semiconductor companies: AMEC, Naura and Zhongji Innolight.

### Stock Level Attribution

### Market Outlook

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 industrial and manufacturing capabilities, 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 drive returns over the long term.

There is no shortage of companies with growth potential in China. 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. Market valuations are attractive while the operational results of companies in the fund show how a combination of scale, efficiency and innovation can support significant growth. The main constraints to market performance therefore likely stem from ongoing weaker consumer sentiment and geopolitical headwinds. We expect consumer confidence to pick up in 2025 as the government pours more stimulus into the economy but expect geopolitics to add a degree of volatility to markets.

## Attribution

### Top and Bottom Ten Contributors to Relative Performance

#### Quarter to 31 December 2024

Stock Name	Contribution (%)
Shenzhen Megmeet Electrical	1.4
Pop Mart International Group	0.7
China Merchants Bank	0.3
Sunny Optical Technology	0.3
Anker Innovations Technology	0.3
Estun Automation	0.2
Jiangsu Azure Corp	0.2
CATL	0.2
JD.com	0.2
Fuyao Glass Industry Grp	0.2
XIAOMI CORPORATION	-0.8
Proya Cosmetics	-0.4
China Construction Bank Corp	-0.4
PDD Holdings	-0.4
BeiGene	-0.3
Zhongji Innolight	-0.3
ZiJin Mining	-0.2
Centre Testing	-0.2
ICBC	-0.2
KE Holdings (HK Line)	-0.2

#### One Year to 31 December 2024

Stock Name	Contribution (%)
Meituan	1.6
Pop Mart International Group	1.4
Shenzhen Megmeet Electrical	1.3
Brilliance China Automotive	0.8
China Merchants Bank	0.8
CATL	0.7
Midea Group	0.4
Baidu.com Group Holding	0.4
Fuyao Glass Industry	0.4
Ping An Insurance	0.3
Guangzhou Kingmed Diagnostic	-1.2
PDD Holdings	-1.1
XIAOMI CORPORATION	-0.9
Sanhua Intelligent Controls	-0.9
Sinocera Material	-0.8
Kweichow Moutai	-0.8
Shenzhou International Group	-0.6
Yonyou	-0.6
Proya Cosmetics	-0.6
China Construction Bank Corp	-0.5

Source: Revolution, MSCI. Baillie Gifford China Fund relative to MSCI Golden Dragon Index to 02/05/2019, MSCI All China Index to 26/11/19 thereafter MSCI China All Shares Index.

Some stocks may only have been held for part of the 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. See the List of Holdings section of this report for the stocks held.

Transactions from 01 October 2024 to 31 December 2024.

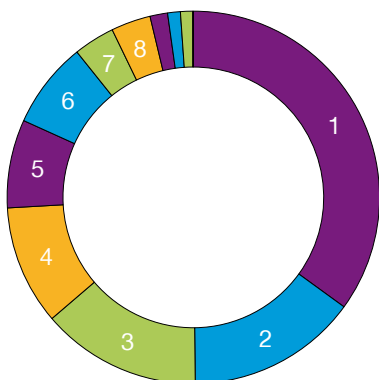
## New Purchases

Stock Name	Transaction Rationale
Advanced Micro-Fabrication Equipment	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 for the fund.
Haidilao International	Haidilao is one of the leading Chinese restaurant chains, specialising in Hot Pot cuisine. This business has the potential for future strong growth, driven by both new store openings and higher average customer spending. Its brand has been proven over a number of years and it has a reputation for delivering a superior customer experience that makes it a 'go to' eating destination for hot pot. These factors combine with a very low valuation given the poor sentiment towards Chinese consumption stocks. In short, we believe that the 'market' is giving us an opportunity to invest in a high quality growing franchise at a very attractive price.
Horizon Robotics	Horizon Robotics is the largest autonomous vehicle chip designer and software provider in China. It delivered approximately 2.2 million chips last year and is growing at a double digit rate. The penetration of level 3 autonomous driving is only around 10% in China but increasing rapidly, whilst there is a longer term possibility that China approves level 4 driving or above. In addition to chip sales, Horizon also has the potential to monetize its software via licensing to third parties. This could also add meaningfully to growth. The company is led by its visionary founder, Dr Yu, and its significant and consistent investment in research and development has resulted in a strong lead within this industry. This is a company that we have known for a long time and have owned privately in some of our funds. We have decided to buy a holding at IPO as we believe that the valuation does not reflect the company's long term growth potential, its edge or the quality of its exceptional management team.
NAURA Technology Group	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 State-owned enterprise (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	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
Brilliance China Automotive	<p>It has been a wild ride in Brilliance. Our original investment thesis - that Brilliance represented an attractive way to play BMW's growth in China as the German company's local JV partner - was badly undermined by the suspension of the shares in 2021, following the revelation of serious failures in governance and internal controls relating to debt guarantees that had been made to the company's state-owned parent. Since then, we have engaged with the company and the board to ensure that they implement the necessary remedial measures and improvements to permit a relisting; this was achieved in late 2022, and since then the shares have rebounded very strongly, supplemented by the payout of large special dividends. While we were pleased to have some reward for our patience, we no longer have much faith in the company's capital allocation, and have sold the shares.</p>
Guangdong KinLong Hardware	<p>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.</p>

## Sector Exposure



	%
1 Consumer Discretionary	35.0
2 Industrials	14.9
3 Communication Services	13.9
4 Information Technology	10.4
5 Financials	7.7
6 Consumer Staples	7.5
7 Materials	3.6
8 Health Care	3.4
9 Real Estate	1.5
10 Utilities	1.1
11 Energy	1.1
12 Cash	0.0

As well as cash in the bank, the cash balance includes unsettled cash flows arising from both shareholder flows and outstanding trades. Therefore, a negative balance may arise from timing differences between shareholder flows and security trading, and does not necessarily represent a bank overdraft.

## Top Ten Holdings

Stock Name	Description of Business	% of Portfolio
Tencent	Technology conglomerate	9.8
Meituan	Chinese online services platform	6.9
Alibaba	Chinese e-commerce, cloud infrastructure, digital media, and payments.	5.6
Kweichow Moutai	Chinese spirits manufacturer	4.6
Ping An Insurance	Provides insurance services in China	4.0
CATL	Battery manufacturer	4.0
China Merchants Bank	Chinese bank	3.7
PDD Holdings	Chinese e-commerce platform focused on social commerce	3.5
Midea	Household appliance manufacturer	2.9
BYD Company	Manufactures and sells automobiles.	2.8
Total		47.7



Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	15	Companies	None	Companies	None
Resolutions	155	Resolutions	None	Resolutions	None

Company Engagement

Engagement Type	Company
Environmental	PDD Holdings Inc., Ping An Insurance (Group) Company of China, Ltd., Tencent Holdings Limited, Zijin Mining Group Company Limited
Social	Guangzhou Kingmed Diagnostics Group Co., Ltd., PDD Holdings Inc., Ping An Insurance (Group) Company of China, Ltd., Tencent Holdings Limited, Zijin Mining Group Company Limited
Governance	Guangzhou Kingmed Diagnostics Group Co., Ltd., Horizon Robotics, 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., Horizon Robotics, Ping An Insurance (Group) Company of China, Ltd., Tencent Holdings Limited, Zijin Mining Group Company Limited

For further details on company engagement please contact us. You can also find further information on how we integrate environmental, social and governance (ESG) matters into our investment approach, [here](#).

Asset Name	Fund %	Asset Name	Fund %
Tencent	9.8	Shanxi Xinghuacun Fen Wine Factory Company	0.6
Meituan	6.9	CNOOC	0.6
Alibaba	5.6	Medlive Technology	0.6
Kweichow Moutai	4.6	Horizon Robotics	0.5
Ping An Insurance	4.0	China Oilfield Services	0.4
CATL	4.0	Dongguan Yiheda	0.4
China Merchants Bank	3.7	Cash	0.0
PDD Holdings	3.5	<b>Total</b>	<b>100.0</b>
Midea	2.9		
BYD Company	2.8		
NetEase	2.3		
Zijin Mining	2.2		
Shenzhen Megmeet Electrical	1.9		
Haier Smart Home	1.8		
Pop Mart International Group	1.7		
Shenzhen Inovance Technology	1.6		
Shenzhou International	1.6		
Haidilao International	1.6		
KE Holdings	1.5		
Fuyao Glass Industry	1.5		
Anker Innovations	1.5		
Sunny Optical Technology	1.5		
Proya Cosmetics	1.4		
Shandong Sinocera Functional Material	1.4		
Centre Testing International	1.4		
Advanced Micro-Fabrication Equipment	1.3		
Hangzhou Robam Appliances	1.3		
BeiGene	1.3		
Huayu Auto Systems	1.3		
Weichai Power	1.3		
NAURA Technology Group	1.3		
Estun Automation	1.2		
Zhejiang Sanhua Intelligent Controls	1.1		
ENN Energy	1.1		
Jiangsu Azure	1.1		
Luckin Coffee	1.0		
SG Micro	1.0		
Kuaishou Technology	1.0		
Zhongji Innolight	0.9		
Silergy	0.9		
Li Ning	0.9		
Kingdee International Software	0.9		
Sungrow Power Supply	0.9		
Kingsoft	0.9		
Yifeng Pharmacy Chain	0.8		
Sinocare	0.8		
Guangzhou Kingmed Diagnostics Group	0.7		
Minth Group	0.7		
Yonyou	0.7		

Please note the fund information contained within this document is proprietary information and should be maintained as such and not disseminated. The content is intended for information purposes only and should not be disclosed to other third parties or used for the purposes of market timing or seeking to gain an unfair advantage.

Share Class	Share Class Inception Date	ISIN	SEDOL	Annual Management Fee (%)	Ongoing Charge Figure (%)
Class B-Inc	26 May 2009	GB00B3K73F73	B3K73F7	0.72	0.79
Class B-Acc	19 November 2008	GB00B39RMM81	B39RMM8	0.72	0.79

The table displays the primary shares classes. Other share classes may be available for those investors who have a separate arrangement. Charges will reduce the value of your investment. Please refer to the Prospectus and Key Investor Information Document for further details. The Ongoing Charges Figure ('OCF') may be lower than previous declarations as a result of a revision to how the indirect fees associated with closed-ended investment companies need to be shown. This does not necessarily mean that fund expenses have gone down rather that we have reverted to how they have been calculated until 30 June 2022 to reflect the revised Investment Association's Guidance on Disclosure of Fund Charges and Costs (July 2020, updated January 2022, revised November 2023). A more detailed Costs and Charges disclosure is available upon request.

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#### **Additional Geographical Location Information**

**Israel:** This Report, as well as investment in the Fund described herein, is directed at and intended for Investors that fall within at least one category in each of: (1) the First Schedule of the Israeli Securities Law, 1968 (“Sophisticated Investors”); and (2) the First Schedule of the Investment Advice Law (“Qualified Clients”).

The Fund’s share price can be volatile due to movements in the prices of the underlying holdings and the basis on which the Fund is priced.

As with any investment, the clients’ capital is at risk. Past performance is not a guide to future returns.

Throughout the report all figures are rounded, so any totals may not sum. Not all stocks mentioned may be held by the portfolio.

All information as at 31 December 2024 and source is Baillie Gifford & Co unless otherwise stated.

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