

## Baillie Gifford China Fund

30 September 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	£231.9m
IA Sector	China/Greater China
Active Share	68%*
Current Annual Turnover	25%
Current number of stocks	52
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 (%)	14.4	3.1	-12.2	-0.6
Index (%)*	15.4	9.7	-5.9	0.4
Target (%)**	16.0	12.0	-4.0	2.5
Sector Average (%)***	12.0	5.0	-9.3	-0.8

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.

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

	30/09/19- 30/09/20	30/09/20- 30/09/21	30/09/21- 30/09/22	30/09/22- 30/09/23	30/09/23- 30/09/24
Class B-Acc (%)	47.0	-2.6	-26.1	-11.3	3.1
Index (%)*	26.2	-2.8	-17.4	-8.0	9.7
Target (%)**	28.7	-0.8	-15.8	-6.2	12.0
Sector Average (%)***	26.8	1.6	-19.7	-11.4	5.0

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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## Market environment

Early in the year, we thought a change at the top of the securities regulator and a raft of pro-market policies may mark a more proactive approach towards markets and growth in the economy, but that sentiment soon faded amid an ongoing cycle of expectation and disappointment. Then came a host of property sector policies designed to stabilise the sector, yet transactions and prices have yet to take heed. A new nine-point set of guidelines released to stimulate the market has led to, amongst other things, a greater focus on shareholder returns and we're seeing an increasing number of companies report dividend increases or higher share buybacks, but this had led to little shift in the index as a whole.

A week can make a big difference in markets. Had this been written in mid-September, it would have focused on a domestic economic backdrop that remains underwhelming, a lack of consumer confidence which continued to weigh on markets, and ongoing challenges in the property sector. A lack of aggressive intervention asked questions of credibility in China's leadership around economic policy. China's bank lending fell to a 15 year low in July and A share turnover fell to its lowest in four years.

Much changed in the last week of the quarter that led to the largest one week move in stock markets since September 2008. Market turnover reached Rmb1trn in the first 32 minutes of trading on one day, the fastest ever. This followed a coordinated policy response with stimulus focused on three areas: 1) further easing monetary policy: interest rates and RRR cut (requirement rate for reserves for banks); 2) supporting the property sector: further reducing mortgage rate and downpayment requirement; 3) supporting the stock market/listed companies: set up central loan pool to lend to companies to buy back shares and reduce their cost of capital.

This bodes well for stock markets. The fact that the government is coming together with clear, coordinated policy communication could be enough to turn equity market sentiment. However, China's problems aren't down to high rates, inadequate liquidity or credit supply constraints, and the announced policies remain small in a historic context when related to their fundamental economic impact.

## Performance

The Fund narrowly trailed its respective index during the quarter, though the final week of the period saw a significant swing into positive absolute returns. Contributors and detractors to performance were largely for stock specific reasons. Top contributors to performance included Beigene, Meituan and CATL.

Beigene is a global oncology company focused on innovative and affordable medicines. The company recovered from broader concerns about the risk of geopolitical tensions affecting its business, reporting strong numbers which highlighted the strength of its existing drugs and its impressive R&D capabilities which underpin excitement in its growth pipeline.

Meituan continues to deliver growth in its core operations. The company is showing resilient growth despite the weaker macro conditions. Revenues are growing faster than order volumes given higher advertising demand from merchants in food delivery, and competition has become more rational in the in-store, hotel and travel sector. The announcement of an increase in the size of their share buyback reflects the company's confidence in its outlook and the cheap valuation.

CATL is the world's leading battery manufacturer for electric vehicles and energy storage systems. Following a two-year cyclical downturn in the battery sector, we may now be at a positive inflection point, with domestic industry capex having halved from the peak, and sustainable global battery demand supporting a more favourable backdrop. Despite louder geopolitical noises surrounding its relationship with Ford in the US, the market has focused on CATL's leading competitive edge in technology, reliability and cost.

The top detractors were Shenzhou International, Silergy and Proya.

Shenzhou International is a clothing manufacturer supplying some of the world's leading sportswear brands. While the company reported reasonable quarterly numbers, we expect the weak share price to have been driven by the market's concerns about slower volume growth for international clients and further pricing pressure. Revenues from Nike were notably weak, however, this was offset by strength from Uniqlo and Adidas. As supply chain dynamics shift, Shenzhou are set to open new factories in Cambodia and Indonesia over the next year, with new capacity and production efficiency improvements being important drivers of future growth.

Silergy is an analogue semiconductor company, operating in a cyclical industry which often results in its performance flip-flopping between quarters. Despite reporting good revenue growth and stronger than expected gross margins during the quarter, flattish near term sales guidance may have disappointed market expectations. We think this has little influence on the long-term structural growth story for a leading domestic semiconductor company committed to R&D leadership, expanding its product lines and playing to China's drive for greater self-sufficiency.

Proya is a leading domestic skincare company. Weakness in the share price is more likely driven by more general concerns about the consumption environment amid a weak domestic economy than anything stock specific. The company reported strong earnings growth in the recent quarter and may actually be a beneficiary of the weaker environment as consumers seeking greater value look to leading domestic brands. Proya has a multi-brand portfolio and leading operations capabilities that should make it more agile and efficient in product development and online sales. While the ongoing transition of management may impact sentiment, we don't believe it alters Proya's competitive position nor growth outlook.

### Stewardship

Amid the ongoing protectionist backlash towards Chinese made electric vehicles and its supply chain, we sought further insight from CATL, the world's largest EV battery manufacturer which has a relationship with Ford. The global nature of battery supply chains and the regulatory scrutiny across the sector underscores the complexities faced by businesses trying to navigate geopolitical tensions. This is likely to be an evolving situation, though we are encouraged to hear of a strong partnership between CATL and Ford and confidence in their ability to comply with US regulations. Our discussions also touched on the dynamics of lithium supply and demand. CATL expressed confidence in the long-term demand for lithium and emphasised its strategic positioning to capitalise on this demand. The company's ownership of mines in strategic locations across China, Indonesia and South America, along with its active pursuit of high-quality assets globally, underscores its commitment to securing a stable lithium supply chain.

### Notable Transactions

The Fund bought one new holding in CNOOC during the quarter and added to its holding in Sunny Optical. It made a complete sale of Ping An Bank. Reductions were made to Pop Mart, Meituan, Moutai and Fuyao Glass, all companies which have performed well.

### Market Outlook

The recent high-profile official announcements indicate a strong commitment from the top to this year's growth target. However as long-term investors we don't think a one year GDP target should be the key focus for our stock picking. Most of our holdings are positioned to benefit from long-term secular trends (and economic transition) in China and globally, rather than the aggregate domestic growth number. Saying that, there are a number of things we would watch in terms of growth recovery: 1) potential fiscal stimulus

and their execution at a local government level 2) stabilisation of property prices 3) private companies' confidence – will they start investing in R&D again and hiring more people 4) unemployment rate and signs of households starting to spend more.

Challenges in the domestic economy, China's regulatory backdrop and geopolitical challenges are now largely well-known and understood. We don't expect geopolitics to go away in a hurry, particularly in a US election year. But the rhetoric that accompanies this will lead to challenges to Chinese companies doing business overseas but may also blind many to the underlying developments going on in China that is leading to a growing global competitiveness for a number of firms in a variety of sectors. We note a significant disconnect between top-down pessimism surrounding China's macro-economic challenges, and the optimism shown by a number of its leading innovative and entrepreneurial companies. Our enthusiasm is helped by companies continuing to report good operating results that highlight China's scale and growth.

We see China leading the world in a number of areas where secular trends are expected to provide long-term opportunities. The government's renewed focus on industrial policy and "new productive forces" include proposals to consolidate and expand China's leading position in intelligent connected 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.

The catalyst for further performance is likely greater domestic confidence in the economy bringing the local investor back to the stock market. Stabilisation in the property sector could be very meaningful for consumer confidence, which could in turn be very meaningful for domestic demand. We shouldn't forget how pragmatic China's leadership can be when faced with a difficult economic situation and growing internal unrest. We can already see a shift in regulatory policy that is becoming far more supportive of sectors whose recent rectification has been challenging. It is this mismatch of what we're hearing from our companies versus the prevailing China narrative that may provide an opportunity.

## Stock Level Attribution

### Top and Bottom Ten Contributors to Relative Performance

#### Quarter to 30 September 2024

Stock Name	Contribution (%)
Meituan	0.9
BeiGene	0.7
CATL	0.4
Ping An Insurance	0.4
Centre Testing International	0.3
KE Holdings	0.3
Sungrow Power Supply	0.2
Petrochina Company	0.2
China Construction Bank Corp	0.2
Bank of China	0.2
Shenzhou International	-0.5
Silergy	-0.4
Brilliance China Automotive	-0.4
PDD Holdings	-0.4
JD.com	-0.4
Proya Cosmetics	-0.3
NetEase	-0.3
Weichai Power	-0.3
ENN Energy	-0.3
Zijin Mining	-0.3

#### One Year to 30 September 2024

Stock Name	Contribution (%)
Meituan	1.4
Brilliance China Automotive	1.1
Zijin Mining	0.6
Pop Mart International Group	0.6
Midea Group	0.5
WuXi Biologics	0.5
Baidu.com	0.4
Silergy	0.4
Fuyao Glass Industry	0.4
CATL	0.3
Shandong Sinocera Functional Material	-0.9
Guangzhou Kingmed Diagnostic Group	-0.8
Li Ning	-0.7
Zhejiang Sanhua Intelligent Controls	-0.7
JD.com	-0.7
Estun Automation	-0.6
WuXi AppTec	-0.5
Asymchem Laboratories	-0.5
Kweichow Moutai	-0.5
Centre Testing International	-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 July 2024 to 30 September 2024.

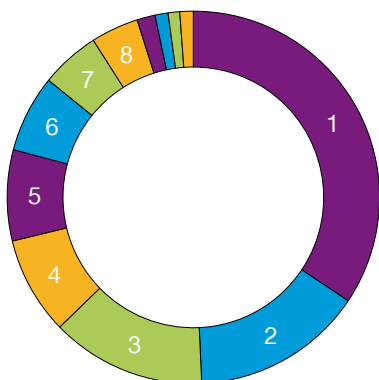
### New Purchases

Stock Name	Transaction Rationale
CNOOC	<p>CNOOC is a leading oil and gas company in China which generates through the cycle returns of 15%, is likely to grow its production at 7% pa in coming years, and offers a dividend yield of 7%. CNOOC is a low cost producer with an all-in production cost of approximately \$28 meaning that its production is cash flow positive at oil prices as low as \$30. Profitable and cash generative growth and an attractive dividend is therefore likely at oil prices significantly below today's. We believe there is significant upside risk to the growth numbers if oil prices are above \$80 or via additional M&amp;A. Issues in the Middle East, Iran and Russia, the increasing political cost of production growth for developed market competitors, and counter-intuitively, an acceleration of the green transition (in some scenarios) are all supportive of higher prices. The company has net cash of \$15bn on its balance sheet and its forecast free cash flow yield is 18% even after forecast capital expenditure of \$17bn. With SOE reform, there is a chance that the firm's capital structure further improves to the benefit of minority shareholders. The potential upside is not being captured in its valuation of 6x 2024 p/e, half the rating of comparable global oil and gas companies, and we would expect the higher growth outlook to be reflected in a rerating of the shares. We believe the risk return profile for the stock is attractive and have therefore decided to take a holding.</p>

### Complete Sales

Stock Name	Transaction Rationale
Ping An Bank 'A'	<p>Ping An bank is a commercial bank offering financial services to corporate and individual clients throughout China. We had hoped that a major organisational and management restructuring would allow it to benefit more broadly from the Ping An Group, across branding, management and other synergies, particularly the group's best in class technology which we hoped would help a continued transformation towards becoming one of the country's leading retail banks. This investment case has not played out. It has not exhibited the strengths we had envisioned, and been increasingly challenged within a sector undergoing a number of regulatory and economic headwinds. We have sold the position.</p>

## Sector Exposure



	%
1 Consumer Discretionary	34.4
2 Industrials	14.9
3 Communication Services	13.5
4 Consumer Staples	8.5
5 Information Technology	7.9
6 Financials	6.7
7 Health Care	5.2
8 Materials	4.1
9 Real Estate	1.6
10 Utilities	1.1
11 Energy	1.0
12 Cash	1.2

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	9.1
Meituan	Chinese online services platform	7.2
Alibaba	Chinese e-commerce, cloud infrastructure, digital media, and payments.	6.3
Kweichow Moutai	Spirits manufacturer	5.1
PDD Holdings	Chinese e-commerce platform focused on social commerce	4.1
CATL	Battery manufacturer	3.6
China Merchants Bank	Chinese bank	3.4
Ping An Insurance	Provides insurance services in China	3.3
Midea	Household appliance manufacturer	2.8
BeiGene	Chinese biotech	2.7
<b>Total</b>		<b>47.6</b>

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	15	Companies	2	Companies	2
Resolutions	116	Resolutions	3	Resolutions	2

Company Engagement

Engagement Type	Company
Environmental	BYD Company Limited, Contemporary Amperex Technology Co., Limited, Zijin Mining Group Company Limited
Social	BYD Company Limited, Contemporary Amperex Technology Co., Limited, Zijin Mining Group Company Limited
Governance	BYD Company Limited, Dongguan Yiheda Automation Co., Ltd, Hangzhou Robam Appliances Co., Ltd., Kingsoft Corporation Limited, Midea Group Co., Ltd., NetEase, Inc., Shanxi Xinghuacun Fen Wine Factory Co.,Ltd., Sungrow Power Supply Co., Ltd., Zijin Mining Group Company Limited
Strategy	Tencent Holdings 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	9.1	China Oilfield Services	0.4
Meituan	7.2	Dongguan Yiheda	0.4
Alibaba	6.3	Guangdong KinLong	0.3
Kweichow Moutai	5.1	Cash	1.2
PDD Holdings	4.1	<b>Total</b>	<b>100.0</b>
CATL	3.6		
China Merchants Bank	3.4		
Ping An Insurance	3.3		
Midea	2.8		
BeiGene	2.7		
Zijin Mining	2.5		
NetEase	2.5		
Silergy	2.3		
BYD Company	2.3		
Haier Smart Home	1.9		
Fuyao Glass Industry	1.8		
Proya Cosmetics	1.8		
Anker Innovations	1.8		
Shenzhen Inovance Technology	1.7		
Shenzhou International	1.7		
Shandong Sinocera Functional Material	1.6		
Centre Testing International	1.6		
KE Holdings	1.6		
Shenzhen Megmeet Electrical	1.5		
Weichai Power	1.4		
Zhejiang Sanhua Intelligent Controls	1.4		
Huayu Auto Systems	1.3		
Kuaishou Technology	1.2		
Sunny Optical Technology	1.2		
Sungrow Power Supply	1.2		
SG Micro	1.1		
ENN Energy	1.1		
Li Ning	1.0		
Estun Automation	1.0		
Luckin Coffee	1.0		
Pop Mart International Group	1.0		
Guangzhou Kingmed Diagnostics Group	1.0		
Yifeng Pharmacy Chain	0.9		
Sinocare	0.9		
Jiangsu Azure	0.9		
Kingdee International Software	0.9		
Hangzhou Robam Appliances	0.8		
Shanxi Xinghuacun Fen Wine Factory Company	0.7		
Yonyou	0.7		
Kingsoft	0.7		
Minth Group	0.7		
CNOOC	0.6		
Brilliance China Automotive	0.6		
Medlive Technology	0.6		

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 30 September 2024 and source is Baillie Gifford & Co unless otherwise stated.

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