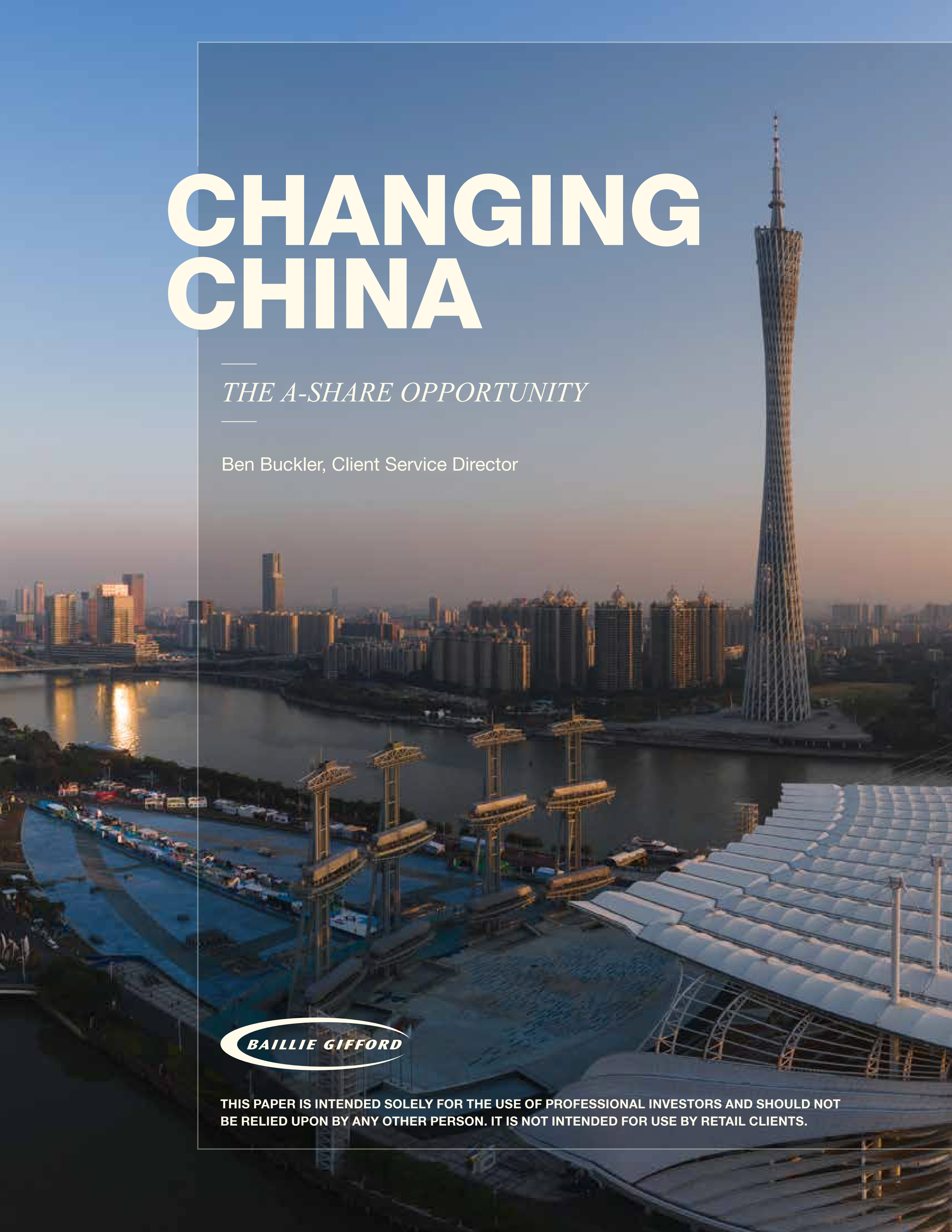


CHANGING CHINA

THE A-SHARE OPPORTUNITY

Ben Buckler, Client Service Director

RISK FACTORS

The views expressed in this article are those of Ben Buckler and should not be considered as advice or a recommendation to buy, sell or hold a particular investment. They reflect personal opinion and should not be taken as statements of fact nor should any reliance be placed on them when making investment decisions.

This communication was produced and approved in August 2019 and has not been updated subsequently. It represents views held at the time of writing and may not reflect current thinking.

Potential for Profit and Loss

All investment strategies have the potential for profit and loss, your or your clients' capital may be at risk. Past performance is not a guide to future returns.

Stock Examples

Any stock examples and images used in this article 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.

This article contains information on investments which does not constitute independent research. Accordingly, it is not subject to the protections afforded to independent research and Baillie Gifford and its staff may have dealt in the investments concerned.

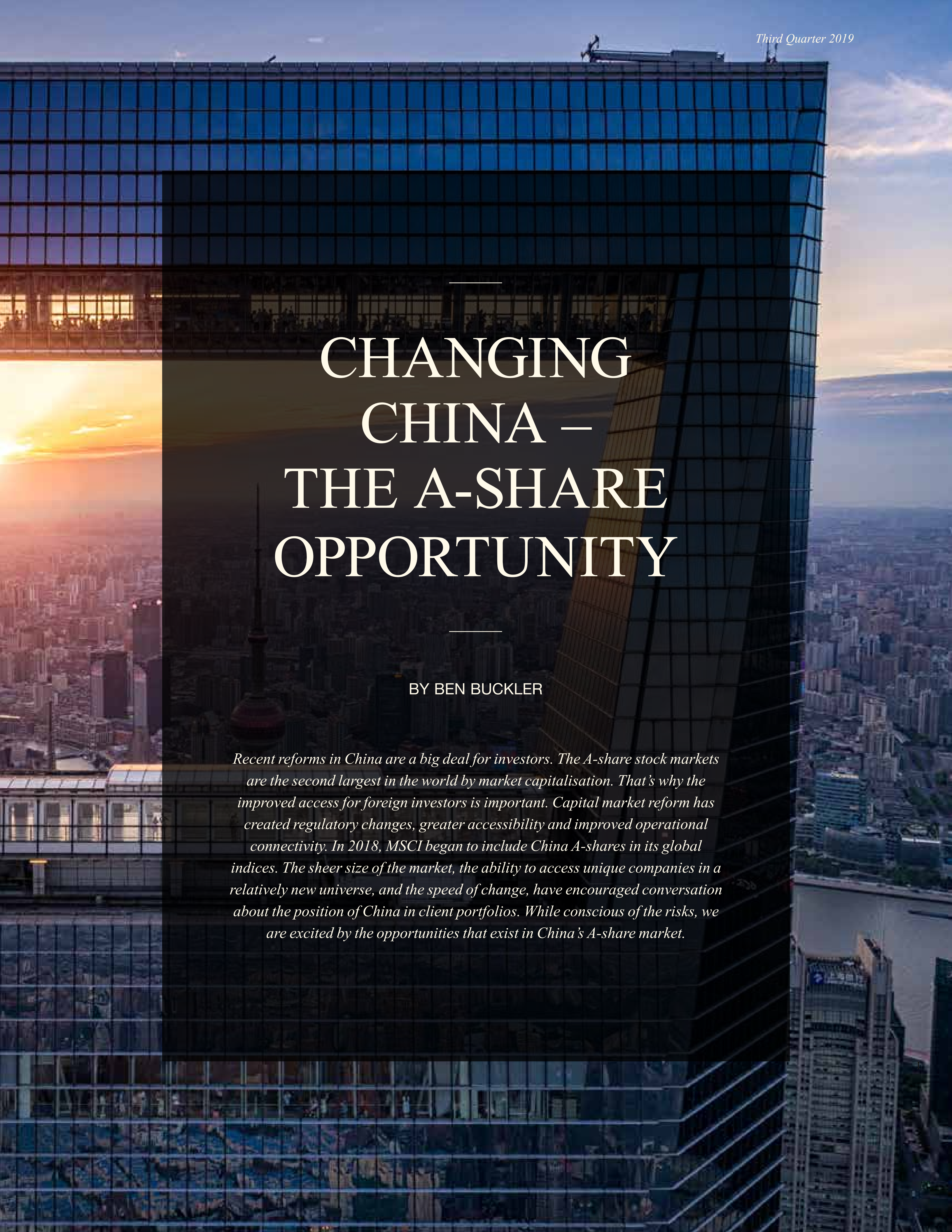
Legal Notice

MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indexes or any securities or financial products. This report is not approved, endorsed, reviewed or produced by MSCI. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

All information is sourced from Baillie Gifford & Co and is current unless otherwise stated.

The images used in this article are for illustrative purposes only.

CM14788 Changing China WP 0121.indd
Ref: 50830 INS AR 0635



CHANGING CHINA – THE A-SHARE OPPORTUNITY

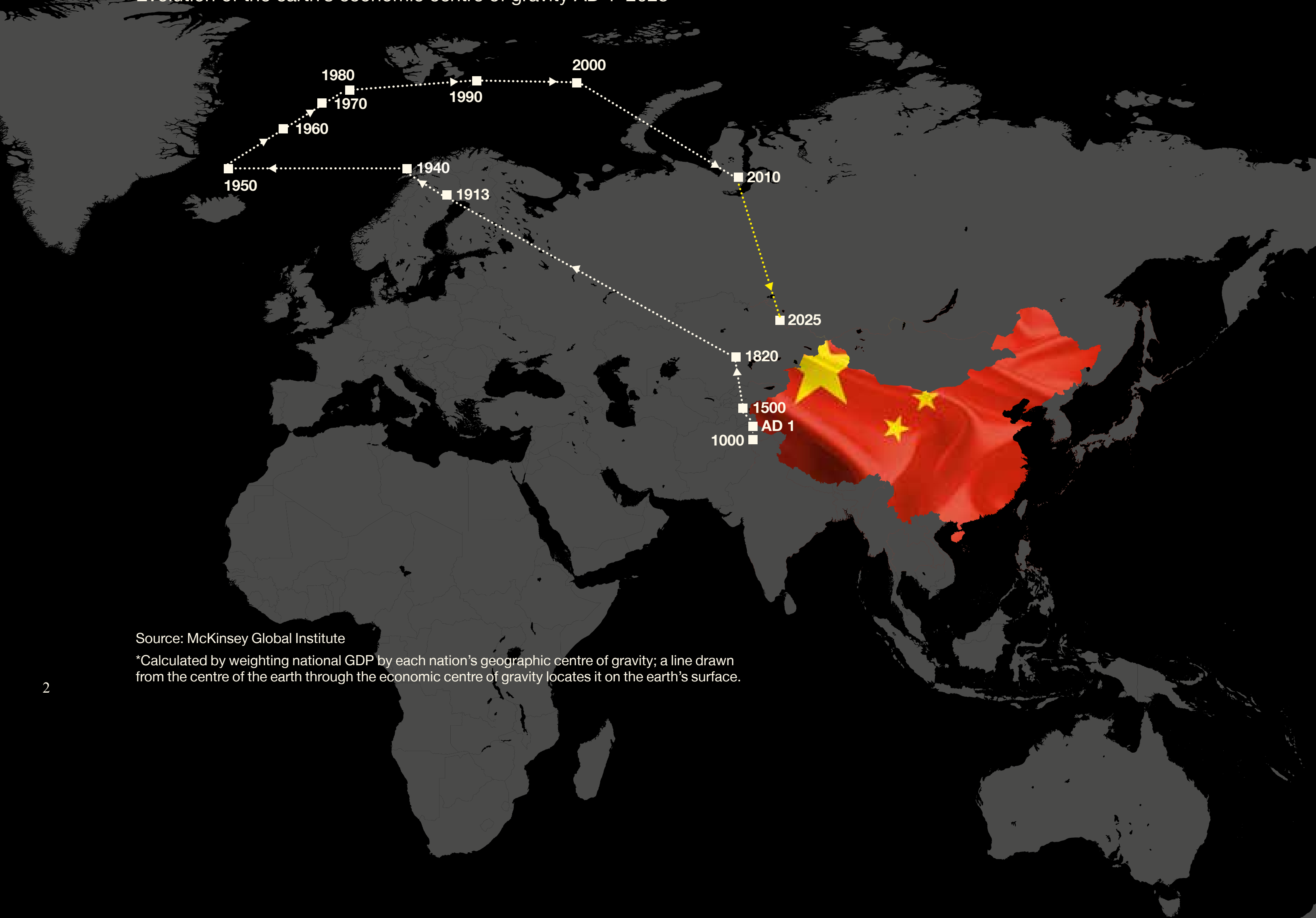
BY BEN BUCKLER

Recent reforms in China are a big deal for investors. The A-share stock markets are the second largest in the world by market capitalisation. That's why the improved access for foreign investors is important. Capital market reform has created regulatory changes, greater accessibility and improved operational connectivity. In 2018, MSCI began to include China A-shares in its global indices. The sheer size of the market, the ability to access unique companies in a relatively new universe, and the speed of change, have encouraged conversation about the position of China in client portfolios. While conscious of the risks, we are excited by the opportunities that exist in China's A-share market.

In little over 40 years, China has emerged onto the global scene as a key player in the world economy. It has regained a self-confidence last seen centuries ago. This rapid ascent has prompted change in global ideas about politics, economics and world order. Rather than rush headlong into capitalism, China has tried to modernise the planned economy, implementing incremental changes and downplaying any discussion of the ultimate goal. As Deng Xiaoping noted, it doesn't matter if the cat is black or white, as long as it can catch mice. China has gone from a foundation of state-owned enterprises to having some of the most fascinating private companies in the world. Over the 40 years of economic reform and trade liberalisation since 1979, China's GDP has grown more than 35 times. In 2014, it became the largest economy in the world (in purchasing power parity terms). The speed of China's ascendance and its strengthened global position have led to questions over where it might be headed.

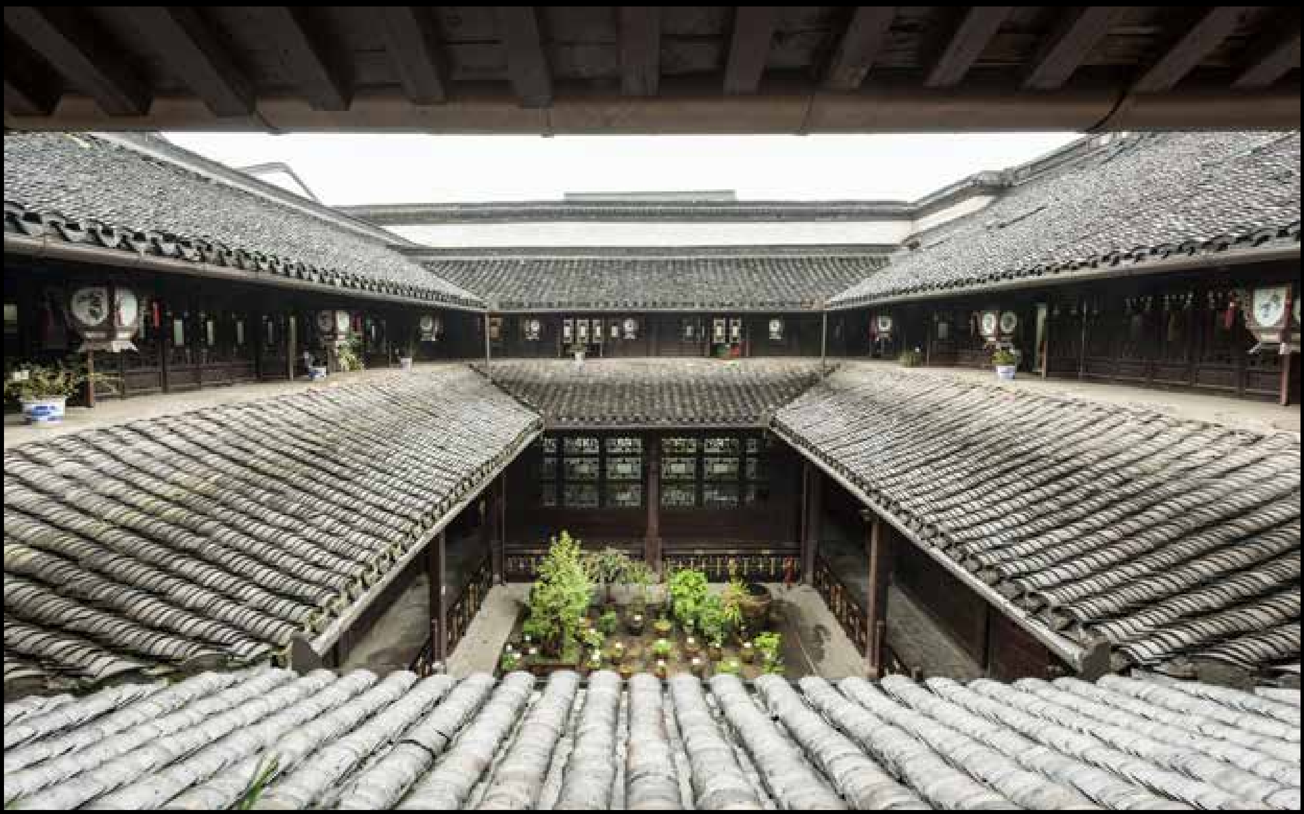
A study by the *McKinsey Global Institute shows the direction and pace, of shifts in the world's economic centre of gravity. For the Chinese, the balance of power is just returning to where it was two centuries ago. It is no surprise that such a move brings both opportunities and threats for the rest of the world.

Evolution of the earth's economic centre of gravity AD 1-2025



Source: McKinsey Global Institute

*Calculated by weighting national GDP by each nation's geographic centre of gravity; a line drawn from the centre of the earth through the economic centre of gravity locates it on the earth's surface.



国

China's ability to combine a gradual opening of its economy, a large state sector, and authoritarian rule has broken the historic link between economic development and political liberalism that is popular in the West. Instead, China has sought to embrace the economic benefits of globalisation without the external political ideology. China's thinkers want to create a world where national governments can be masters of their own destiny, especially given that China was not involved in writing those 'global' rules during the 20th century. The Chinese want investment, technology and market access from the rest of the world, but don't necessarily want to absorb all of the western values that come with it.

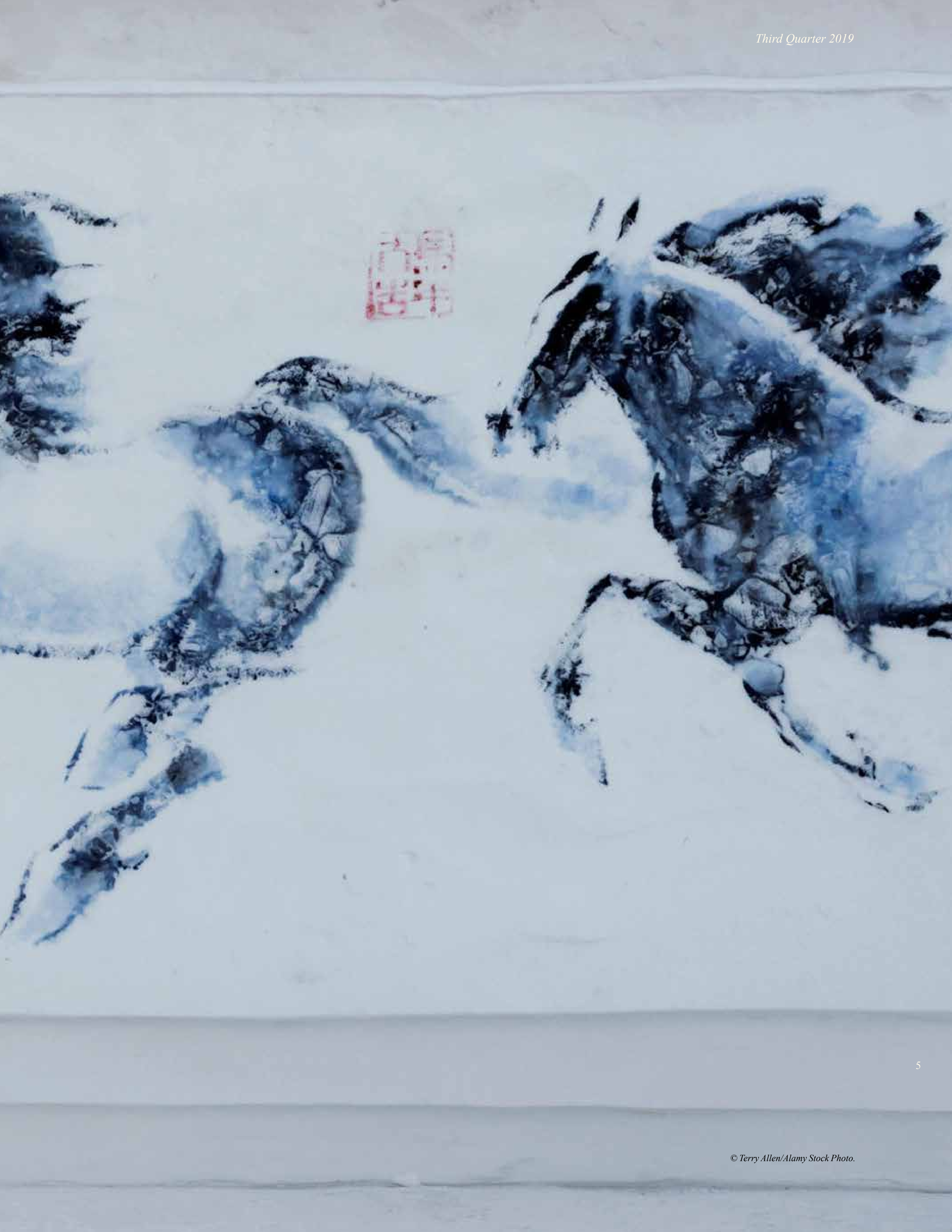
The ideal is a 'walled world', where nation states can trade with each other on global markets but maintain their own control over their economic future, their political system and their foreign policy. This is emerging as an ideological challenge both to the US philosophy of a 'flat world' and the European preference for liberal multilateralism. The idea of a walled world is steeped in Chinese history – the character for 'country' in Chinese has walls around it, Chinese cities are inside walls, and traditional Chinese houses are built around a square courtyard.

A COUNTRY OF PAINTED HORSES

How do we make sense of a system like China? On the one hand it has undergone radical institutional transformation, yet on the other, it exhibits a pattern of persistent challenges to the western model of development. Planned resource allocation is a thing of the past, prices have been liberalised, competition encouraged, an industrial revolution has been unleashed, and integration with the global economy has been achieved. Yet, China continues to see non-market institutions as a foundation to the economy and still wants to have national state-owned champions in key sectors. The link between public and private companies is often somewhat blurred. A quick look along the front row attendees at the government's annual National Party Congress in March shows the blurring of state and private enterprise and the importance of one to the other.

A story by economics Professor, Zhang Weiying, sums up the combination of pragmatism and incrementalism in China's development well. He talks of two villages, one using horses to do chores, the other using zebras. Over time, it became obvious that horses were weaker, but to convert the villagers who were brainwashed to worship the horse, they first started painting the horses black and white, until the villagers became accustomed to their presence, then swapped them for zebras.

China is big, pragmatic and so desperate to succeed that its political leadership is constantly experimenting with new ways of doing things. From this laboratory of social experiments, a new world-view is emerging, with China at the centre of big initiatives in financial sector reform, environmental improvement, technology innovation, industrial upgrading, urbanisation, and consumer-led growth. The A-share market provides a route to investing in these exciting and growing areas.



Whilst the first patent filed in the US was in 1790 and signed by George Washington, China's first patent was in 1985.

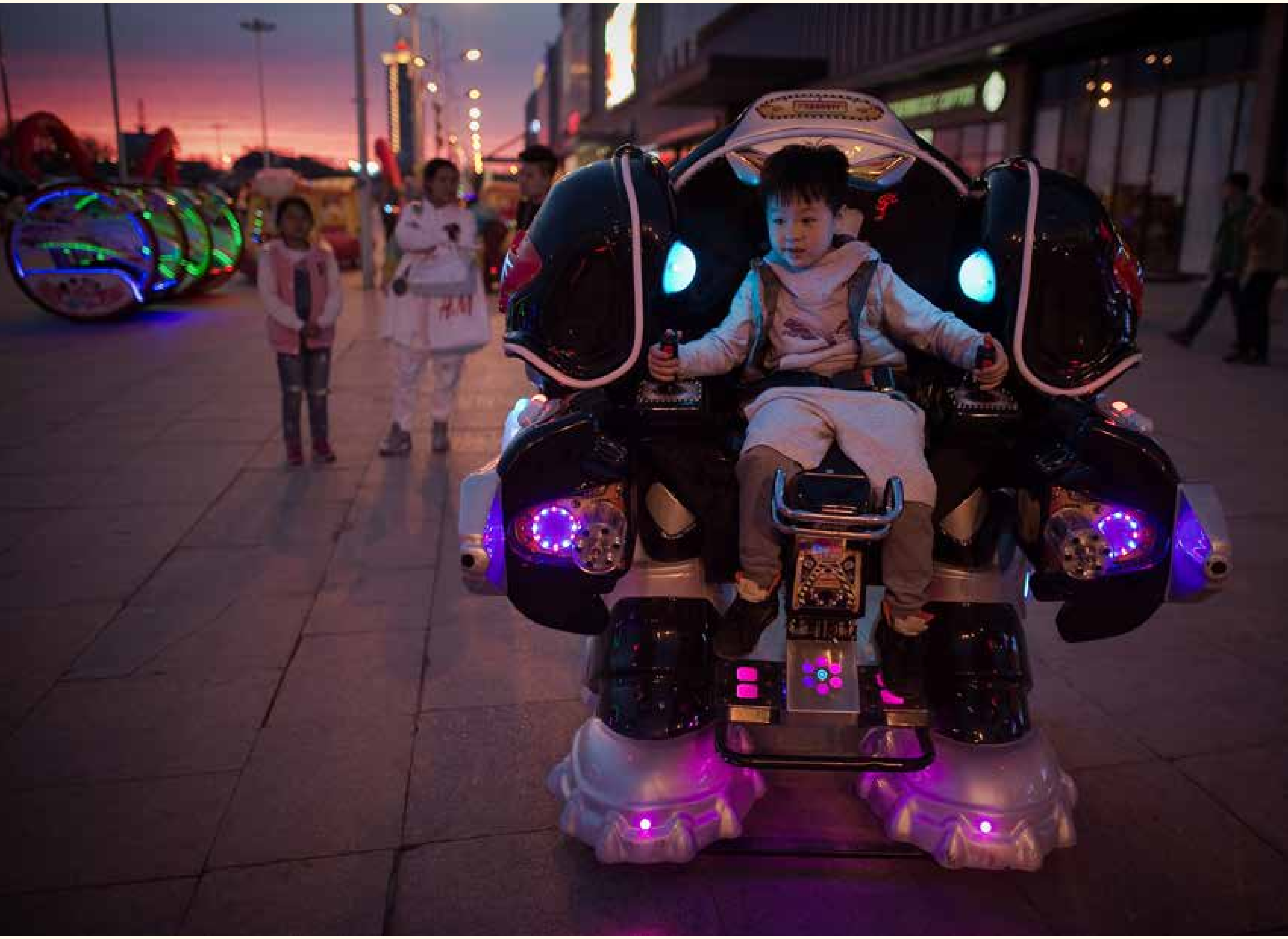
Whilst the first patent filed in the US was in 1790 and signed by George Washington, China's first patent was in 1985. So, it may be a surprise to some that China accounted for 44 per cent of the world's patent filings in 2017, twice as many as America. What's more, it was a Chinese company that topped the international patent filings that year.

The Chinese government has embraced slower economic growth in recent years, referring to the situation as the 'new normal'. It is transitioning its economy to rely less on fixed investment and exports and more on private consumption, services and innovation to drive economic growth. High profile initiatives such as 'Made in China 2025', which focuses on the modernisation of 10 key sectors through extensive government support, and the 'Belt and Road Initiative' aimed at supporting huge infrastructure projects, are examples of China's growing economic and political influence.

In some sectors, such as artificial intelligence, China's ongoing innovation and iteration is putting it in a position of global strength. Former head of Google China, Kai Fu Lee, talks of a shift from an era of experimentation to the era of implementation, and from the age of expertise to the age of data. This tips the playing field in China's favour.

"The messy markets and dirty tricks of China's copycat era produced some questionable companies, but they also incubated a generation of the world's most nimble, savvy, nose to the grindstone entrepreneurs. These entrepreneurs will be the secret sauce that helps China become the first country to cash in on AIs age of implementation." (Kai Fu Lee – AI Superpowers)

The speed of China's development and its focus on innovation across many sectors provide a fascinating opportunity for fundamental investors. The A-share market facilitates that opportunity.



<No data from link>.

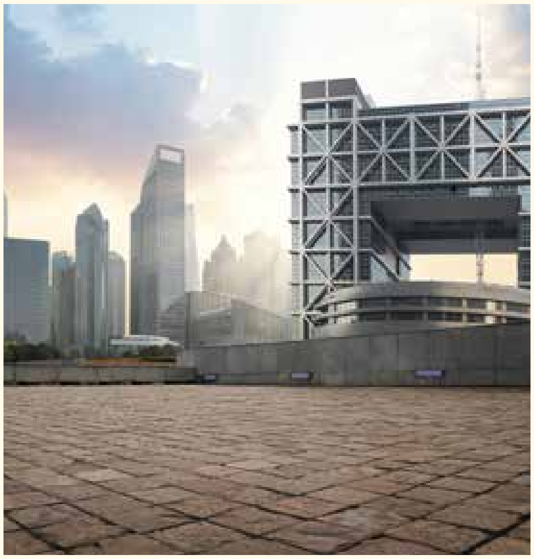
The speed of China's development and its focus on innovation across many sectors provide a fascinating opportunity for fundamental investors.

THE A-SHARE MARKET

Although the Shanghai Stock Exchange traces its foundation back to the 1860s, it effectively closed as a result of the communist revolution and the formation of the People's Republic of China (PRC) in 1949, re-opening only in 1990. Private companies were unable to list until the early 2000s. Even then, onerous listing requirements pushed many exciting new companies to seek capital outside of China. Regretting that the value creation from companies such as Tencent and Alibaba have accrued mainly to foreign investors, this is something that the Chinese government is eager to change.

The A-share market comprises two independent stock exchanges, in Shanghai and Shenzhen. China's low correlation to global equities and high return dispersions make it an exciting place for stock pickers. It also brings a diversification benefit to broader portfolios.

It is only in recent years that capital market reform and improved accessibility have garnered wider international interest. Accessibility to the Chinese A-share stock markets has changed significantly since the original Qualified Foreign Institutional Investor (QFII) scheme in 2002. This was a quota system which required pre-approval and was therefore never widely used by the investment community. That changed with the advent of Shanghai Stock Connect in 2014 and Shenzhen Stock Connect in 2016. This is a much easier way for foreign investors to trade domestic shares on the mainland stock exchanges. The rapid speed of capital market reform and steps taken to address concerns about liquidity, beneficial ownership, volatility and governance, triggered MSCI to add China A-shares to its indices in 2018 and to increase their weighting in 2019. At full inclusion, China A-shares would account for roughly 16 per cent of the MSCI EM Index.



Shanghai Stock Exchange

China's low correlation to global equities and high return dispersions make it an exciting place for stock pickers.

Today the scale of the China opportunity is immense. China's stock exchanges are the second largest in the world. Over 5000 Chinese companies are listed on stock exchanges. This number has doubled since 2010. The A-share market comprises over 70 per cent of these, providing access to a range of interesting companies, themes and sectors. In some instances, it is the only way to access companies involved in traditional Chinese medicine, consumer sectors like baijiu, and a variety of innovative, new economy names.

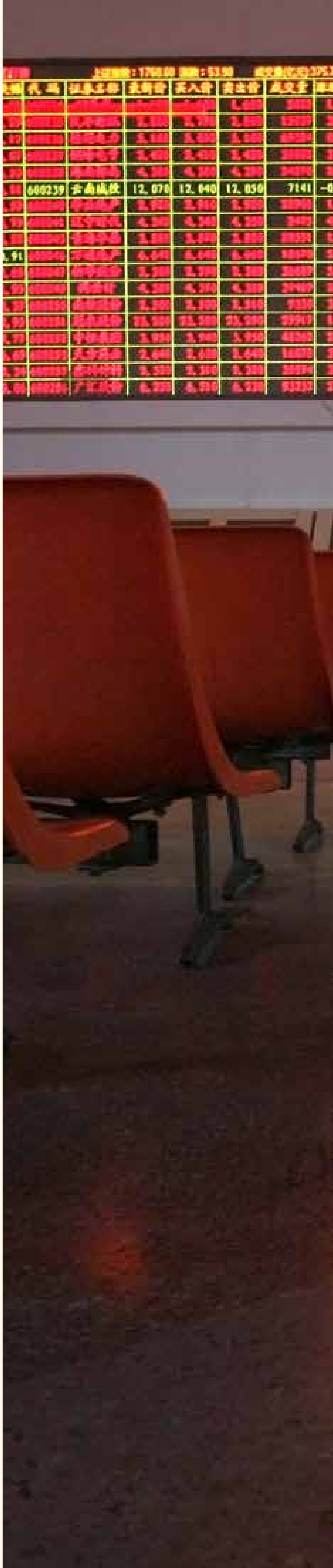
The two mainland A-share markets alone have a combined market cap of roughly $7.5 trillion. That's larger than the UK and Japanese markets combined. Trading volumes on the Shanghai and Shenzhen exchanges are approximately 10 times larger than that of Hong Kong. And yet there are some clear global anomalies. Foreign investors own just 2.5 per cent of the A-share market. China contributes 15.8 per cent of world GDP yet is only 3.6 per cent of the MSCI ACWI. Clearly, we are just at the start of a long journey of further market reform, internationalisation and exciting growth opportunities.

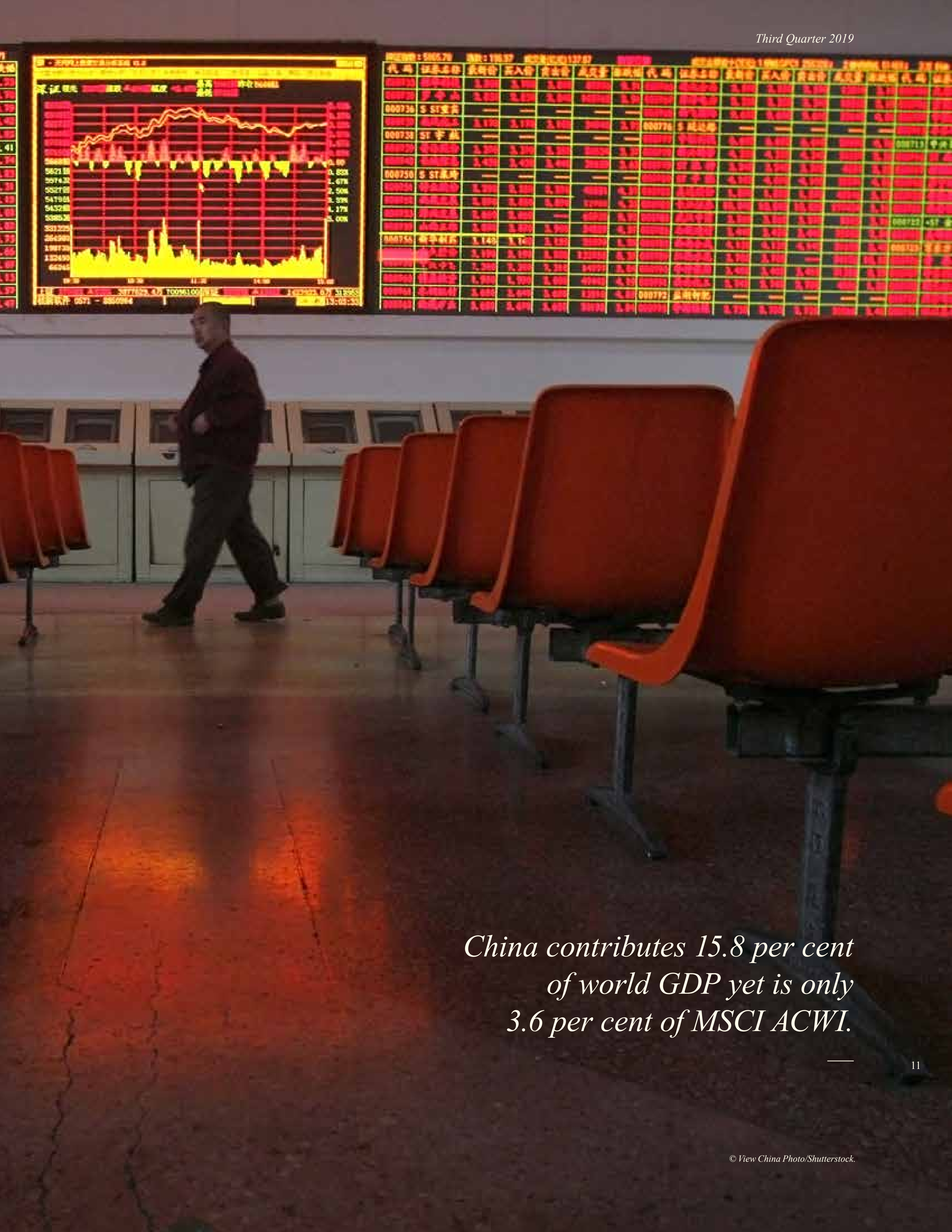
There are a number of MSCI indices that track the A-share market. The broadest and most commonly used is the MSCI China A Onshore Index which captures large and mid-cap securities listed on Shanghai and Shenzhen exchanges. At the end of June 2019, it had 644 constituents with a market cap of U$1.880 trillion. The top 10 companies account for 23.2 per cent of the index, with the largest stocks being Ping An Insurance, Kweichow Moutai and China Merchants Bank. Financials represent the largest sector weighting, followed by consumer staples, industrials and IT.

Under current PRC rules, a single foreign investor's shareholding can't exceed 10 per cent of the company's total issued shares (regardless of the channels through which those shares are held), whilst the combined total of all foreign investors' shareholdings in the A-shares of a listed company must not exceed 30 per cent.

At a company level, reporting requirements and regulations are largely similar to other markets. There is very little difference between PRC, GAAP and IFRS. The main challenge comes from communication. Reports are typically in Mandarin, there is limited corporate access, most companies don't hold results briefings and consensus numbers are unreliable. In recent years, however, the influence of foreign investors on governance and disclosure has grown, and we should expect this to continue as the market institutionalises over time.

Although things are developing fast, foreign investors must acknowledge the starting point for the A-share indices. Compared with other markets, there are material behavioural differences as a result of institutional investors accounting for less than 20 per cent of A-share volume. In contrast, institutional investors are responsible for over 60 per cent in Hong Kong. Holding periods are very short. The market can be very momentum driven. State owned enterprises represent a significant portion of the A-share market capitalisation. We expect the market to institutionalise over time, but as it moves along this path, we are likely to regularly hear concerns about governance, rule of law, government policy, currency risk and questions over the sustainability of reforms. This path is not unique and has been seen in other Asian emerging markets over recent decades. However, it reiterates why an active approach to stock picking is critical.





China contributes 15.8 per cent of world GDP yet is only 3.6 per cent of MSCI ACWI.

THE REGULATORY CONTEXT AND OPERATIONAL BACKGROUND

Financial sector reform is one of the key focus areas in the 13th Five-Year Plan (2016-2020). In China, reforms will take time, but the direction is clear. Big regulatory changes are often slow as key steps are politically determined. Reforms are happening. However, infrastructure and implementation capability are needed to enable it to be done in a controlled fashion. In just 40 years, China has had to build all of the essential regulatory frameworks, laws and infrastructure. Things are moving quickly.

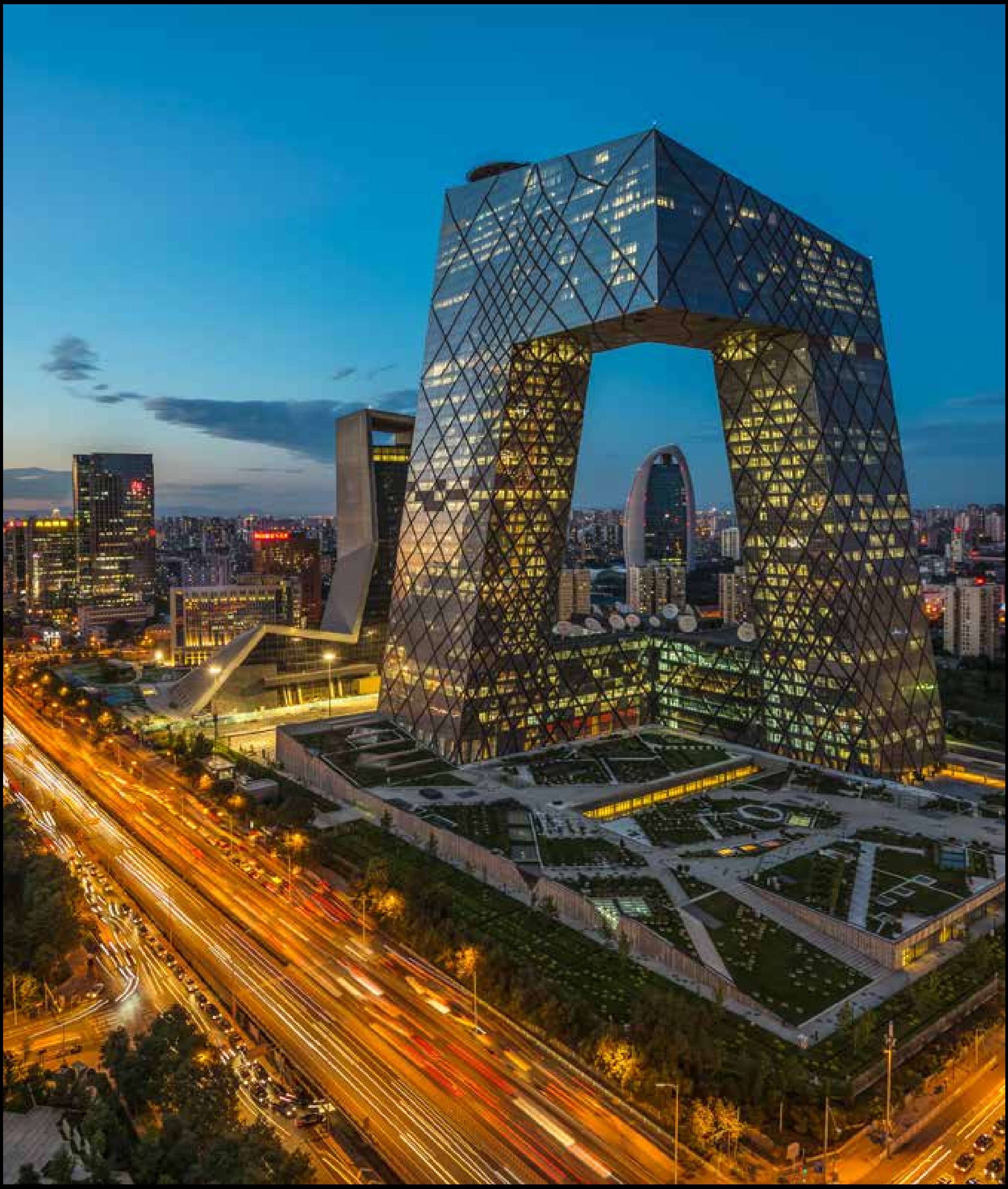
In the US and Hong Kong, regulators are independent and impartial. In China, the regulator is the China Securities Regulatory Commission (CSRC). It regularly gets involved in trying to diffuse volatility, typically by managing the supply of equities through IPOs and secondary offerings, and managing demand by keeping control of leverage.

Unlike QFII/RQFII, foreign investors can set up Stock-Connect accounts in a short period of time. Some previous concerns have now been resolved and operational improvements mean that new purchases no longer need to be pre-funded. Stock-Connect participants also enjoy real-time delivery versus payment.

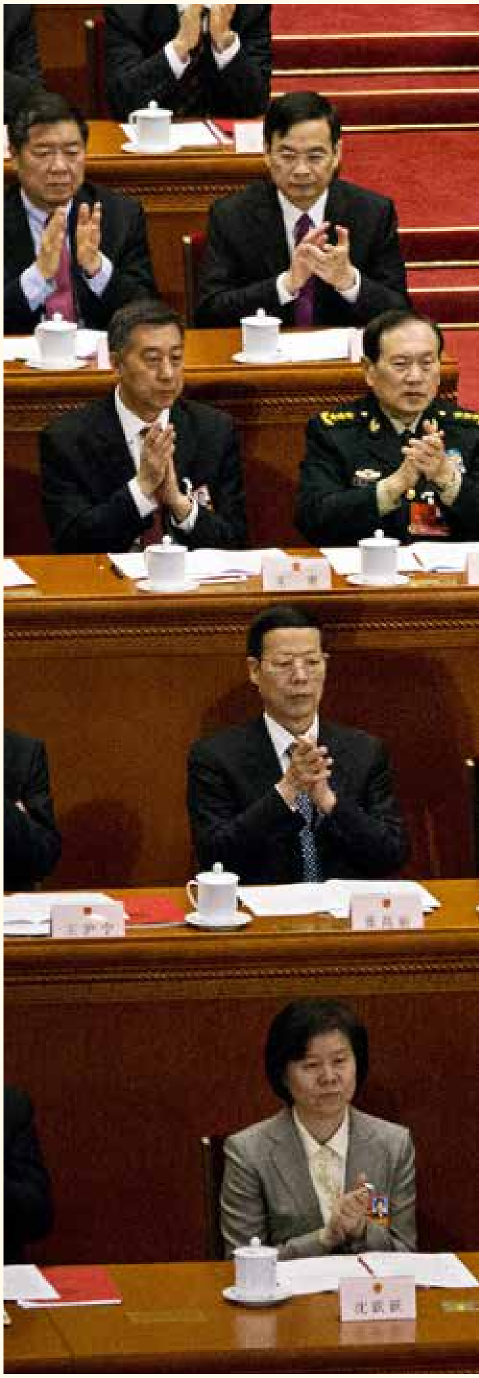
Although Stock-Connect has allowed for easier access to the markets of Shanghai and Shenzhen via the Hong Kong Stock Exchange, there are ongoing operational developments aimed at improving accessibility. Foreign investors still have questions. These include bank holiday differences, a lack of block trading and stock borrowing. Such factors are likely to be important in the further opening up of the A-share market.

Having said that, the speed of development in recent years has been impressive, and we expect it to continue. At Baillie Gifford, we have opened Stock-Connect accounts for more than 100 clients seeking greater access to the A-share market.

In just 40 years, China has had to build all of the essential regulatory frameworks, laws and infrastructure. Things are moving quickly.



THE ROLE OF THE STATE

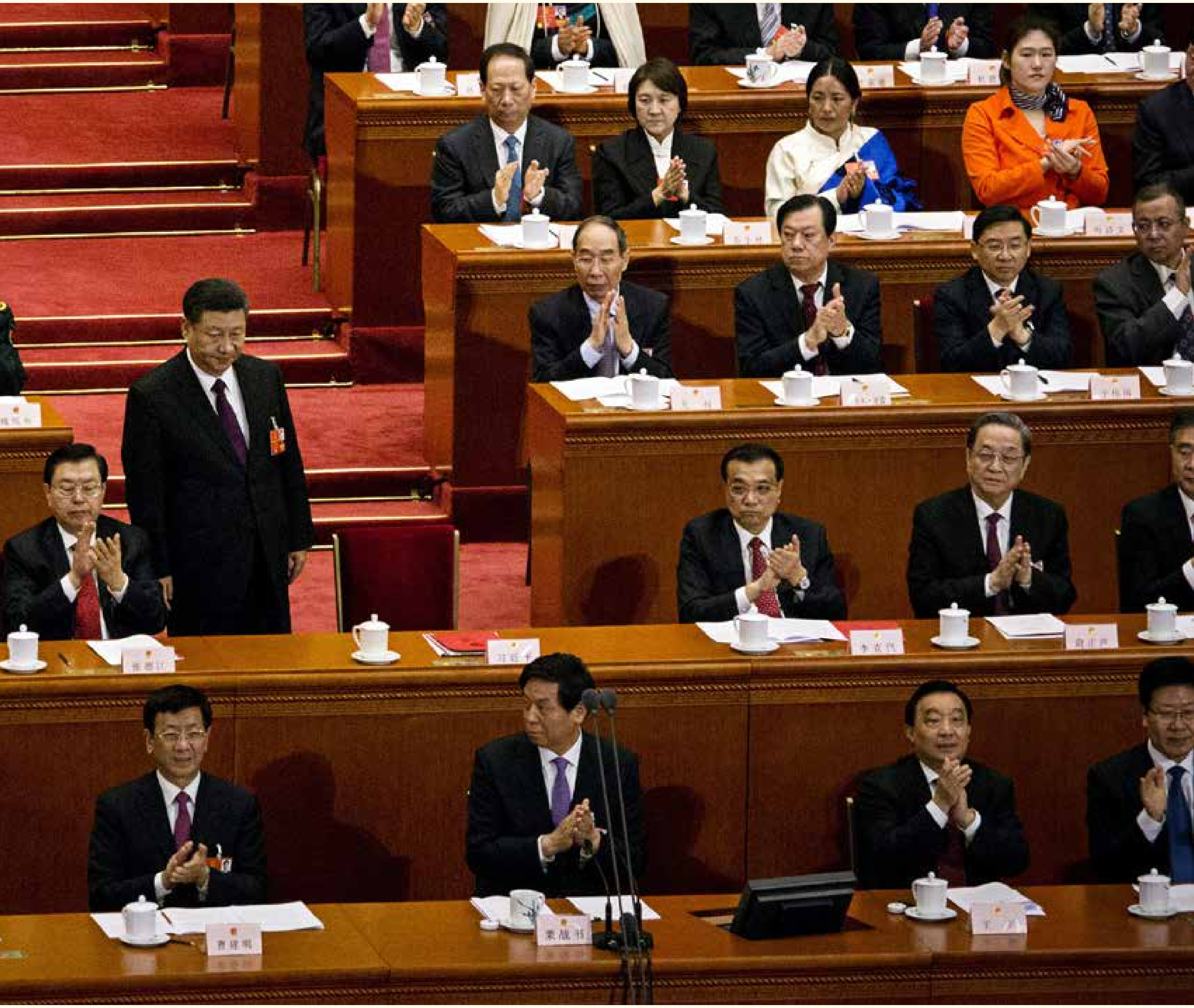


Approximately 1,000 companies, or 40 per cent of the A-share market cap, is made up of central and local state-owned enterprises (SoE), while the figure is 53 per cent for the Shanghai Composite Index. This shows that, four decades into the reform era, China's industrial base is still dominated by the state sector. SoEs tend to be more concentrated in capital intensive industries, particularly in energy, telecoms, transportation and finance. The state clearly plays a larger role in the economy and the markets, although the common conceptualisation of political risk in China is often one-sided, and potentially misguided.

The role of China's autocratic government is a double-edged sword. It can do things that would be impossible in democratic countries. Heavy-handed government intervention is looked on suspiciously by those outside China who are used to free and efficient markets. What the western world may be missing is that this top-down approach can be both highly inefficient and extraordinarily effective. With regards to policy in the tech sector when the long-term upside is so monumental, overpaying in the short term might be the right thing to do. The Chinese government wanted to engineer a fundamental shift in the economy, from manufacturing-led growth to innovation-led growth and wanted to do so quickly. This process was often inefficient locally, but on a national scale, was huge.

Growing the economy has been an important tool in helping maintain China's social stability. In the west, technological progress is often perceived as a threat. In China, such progress, and the Chinese companies driving it, provide important tools for preserving social harmony.

However, China's rapid economic accession has not come without issues. Distortive economic policies have caused an overreliance on fixed investment and exports, government support for state firms, growing pollution and the relative lack of the rule of law. SoEs may often be directed to make investments to support national goals and to participate in government campaigns. They may also be subject to frequent reshuffling of state assets. Stronger firms can end up taking losses on behalf of weaker firms, parent and subsidiary relations can muddy the waters, and there's a frequent merry-go-round of management changes with selection often on political grounds rather than merit.



© Bloomberg/Getty Images .

Investors in A-share companies take on some degree of China-specific political risk, regardless of whether companies are public or private. Private companies must also comply with the state. The 2018 listing guidelines require all publicly traded Chinese firms to set up Communist Party organisations. Negotiating with multiple government entities is just a fact of doing business.

Acknowledging the role of private companies in China's economic miracle is important. By focusing too much on the state's impact, we risk denying some of these entrepreneurs credit for the role they have played in creating a positive business environment. Companies such as Alibaba and Tencent have succeeded in one of the most competitive and dynamic economies, where change is rapid, consumers are fickle, markets are diverse, and competitive advantages are fluid. New entrepreneurs are open to experimentation, unafraid of failure, and constantly adapting their business models to react quickly to the opportunities that present themselves. They do this not to establish a defensible position in their market, but to create the means to transform themselves again and again.

Outsiders who fail to see beyond the one-party authoritarian rule can fail to appreciate how dynamic, innovative, and capable these entrepreneurs are, and how disruptive they might be when they turn their efforts abroad.

Despite Xi's socialist rhetoric, some see him as a pragmatist who recognises what the economy needs. A slowing economy and trade wars have threatened to undermine his political position. It wasn't that long ago that Xi was defending the state sector and its importance, and yet in 2019, he has made supporting private companies a top political priority and is mobilising the system to help support it with loans and accommodative policies. China's largest state banks have been ordered to significantly increase loans to small and medium enterprises (SME). SMEs contribute over half of China's GDP and the country has over 80 million SMEs against 28 million in the US.

That's an exciting hunting ground for investors seeking the next generation of growth companies.

CONCLUSION

China's rise from a poor developing country to a major economic power in just a few decades has been spectacular. It has forced other countries to ask how China's rise may impact their economic interests and global influence over the next century. China's inclusion in MSCI bond and equity indices has also shone a light on the ongoing capital market reform process and the opening of its domestic markets to the world.

The speed and scale at which innovation and development have taken place in China cannot be overlooked. China has already produced some of the biggest and most innovative companies in the world. In many instances, it may be the deep cultural differences which determine levels of success.

We at Baillie Gifford have been looking at the A-shares market for over a decade. A poorly researched market dominated by short-termism with large return dispersions is an exciting one for patient, curious stock pickers.

Some examples of companies found in the A-share market

BAIJIU– KWEICHOW MOUTAI

Chinese white spirit, or baijiu, has been part of Chinese culture for over 2000 years. It was used by emperors to toast honoured guests.

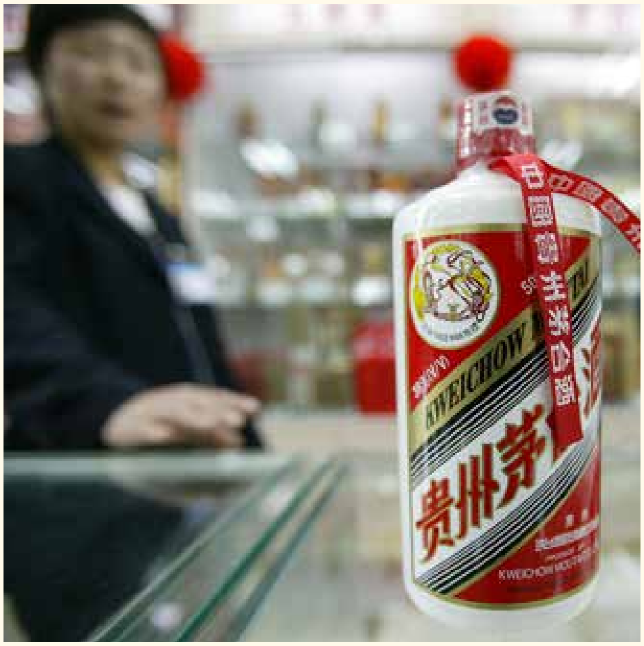
China is the single largest alcoholic beverage market in the world, almost double the size of the US and equivalent to roughly a third of global consumption. Yet whilst large in absolute consumption, it is still low down in terms of per capita consumption. The market can be volatile, but the underlying growth opportunities are obvious. Growth of the middle class, urbanisation and income growth are key drivers of a growing market.

The market is fairly complex in that there are wide variety of baijius across different market segments. Analysis requires a cultural and historic understanding of the white spirits market, the rapidly changing consumer landscape, product innovation and adaptation, and dynamics of the high-end luxury market, in particular around links to business and the state.

This is an important sector in the China A-share market, and one typically not accessible outside of China. Some of the larger names include Luzhou Laojiao, Wuliangye Yibin, Sichuan Swellfun and Jiangsu Yanghe. The biggest, however, is Kweichow Moutai. This is one of the most important and iconic Chinese brands. In April 2017, Kweichow Moutai overtook Diageo as the largest distilling company in the world by market cap. As of June 2019, it had a market cap of U$180 billion. It is a state-owned enterprise (SoE).

Its unique brewing conditions and process provide a core competitive advantage. Moutai's Feitian, or Flying Fairy in English, is the king of China's baijius. Made with local stream water and fermented sorghum in a mountain village, production hasn't been able to keep up with demand.

When combined with supply scarcity and limited competition in the very high-end market, Moutai is able to price at premium and maintain a loyal customer base. Kweichow Moutai is at the ultra-premium end where a typical bottle can cost upwards of U$200, where it is embraced by the elite and increasingly coveted by the country's rising middle class.



If we drink enough Moutai, we can solve anything.

HENRY KISSINGER TO DENG XIAOPING – NEW YORK 1974

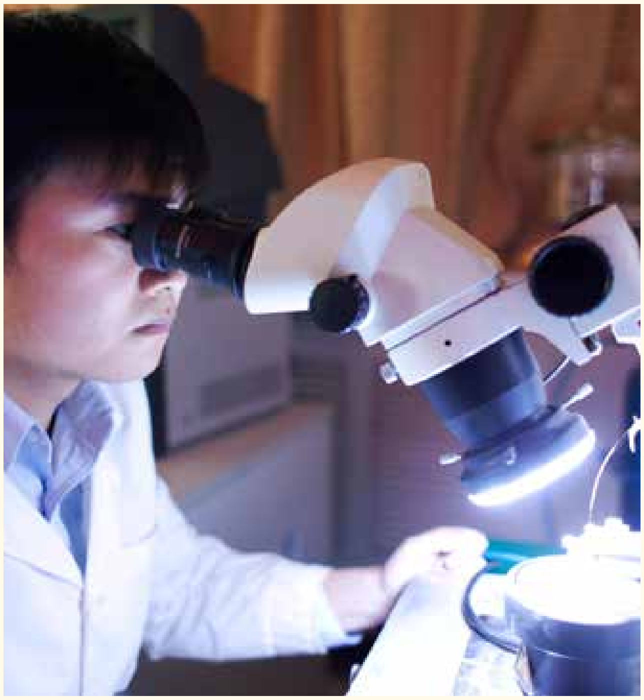
HEALTHCARE – HANGZOU TIGERMED

At just 5.5 per cent, China's healthcare spending as a percentage of GDP ranks the bottom third globally, compared to US's 17 per cent or 9 per cent OECD average. Moreover, China healthcare industry's proportional spending in R&D is significantly less than developed countries. The largest Chinese pharmaceutical companies generally spend less than 5 per cent on R&D. There is significant scope for the further development of innovative drug discovery.

Although China has a public medical insurance system for almost every resident, the coverage has been limited and includes very few patented anti-cancer drugs, which in turn are beyond affordability for many. More than 10000 people a day were diagnosed with cancer in China in 2014. The Chinese movie 'Dying to Survive' in 2018 shone the light on the situation in China. Against this backdrop, the government's 'Made in China 2025' policy prioritises innovation, localization and investment in the pharma sector.

The starting point for healthcare in China is often traditional Chinese medicine (TCM). Although the A-share market provides access to this unique healthcare sector, the companies advancing more innovative developments in modern medicine are the most exciting. This sector is widely represented in the A-share market, ranging in quality and growth prospects, with the more exciting names including Jiangsu Hengrui, Wuxi Apptec and Asymchem Laboratories. Genomics names are also represented by companies like BGI Genomics and Berry Genomics.

Hangzhou Tigermed is a contract research organization which provides research services to pharmaceutical companies. It is expected to be a major beneficiary of rising R&D spend by Chinese pharmaceutical companies, an increase in R&D outsourcing, and consolidation within the market. It is the largest contract research organisation in the clinical stage, with a strong reputation that results from a high standard of service and the efficiency of its operations. It is already working with 16 of the top 20 global pharma companies.



CONSUMER – FOSHAN HAITIAN FLAVOURING AND FOOD

Whether Cantonese in Guangdong, hotpot in Sichuan or noodles in Lanzhou, China loves its food. It can often define a culture and an identity. The culinary map of China is phenomenally diverse.

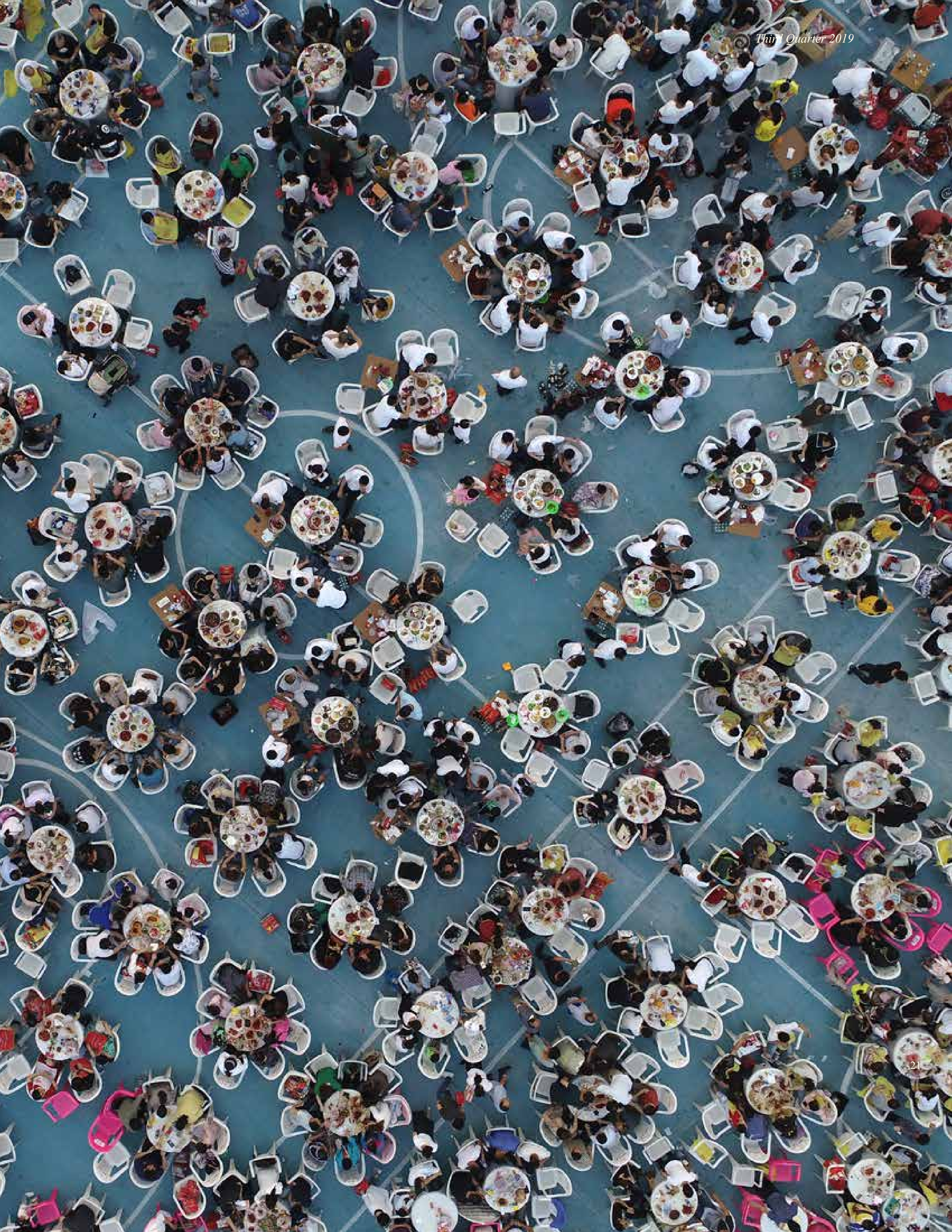
Foshan Haitian is one of the largest manufacturers of soy sauce in the world. It also manufactures other sauces and condiments such as oyster, hoisin, shrimp and vinegar. Haitian's brand goes back more than three centuries to the Qing Dynasty, symbolising product quality and traditional workmanship. It is a brand found in kitchens nationwide.

The market is still fairly fragmented. Over time, consumer demand is expected to drive consolidation through a greater focus on product quality and brand. Haitian's scale provides a key competitive advantage. In 2017, Haitian's production volume was five times the size of the number two player in China. It also has the strongest distribution channel with penetration much further across China than peers. This can be beneficial to nationwide product launches.

Haitian insists on the best product quality. It has established the most sophisticated and comprehensive sample retention and quality tracking policy in the industry to ensure best quality products. With over 700 employees in R&D and a nationally accredited laboratory, Haitian is far ahead of its competitors.

One further point of differentiation is its culture and management. Haitian was a state-owned enterprise which was more recently bought out by its management and employees. Modern management and technology have been important to its ability to scale and foster innovation. This should further enhance the company's ability to maximise ongoing shifts in consumer demand, benefiting from premiumisation across its product range and the shift to higher quality products as incomes grow across China.

19th Chins Xuyi International Crayfish Festival
© Visual China Group/Getty Images.



TRAVEL AND TOURISM – CHINA INTERNATIONAL TRAVEL SERVICE

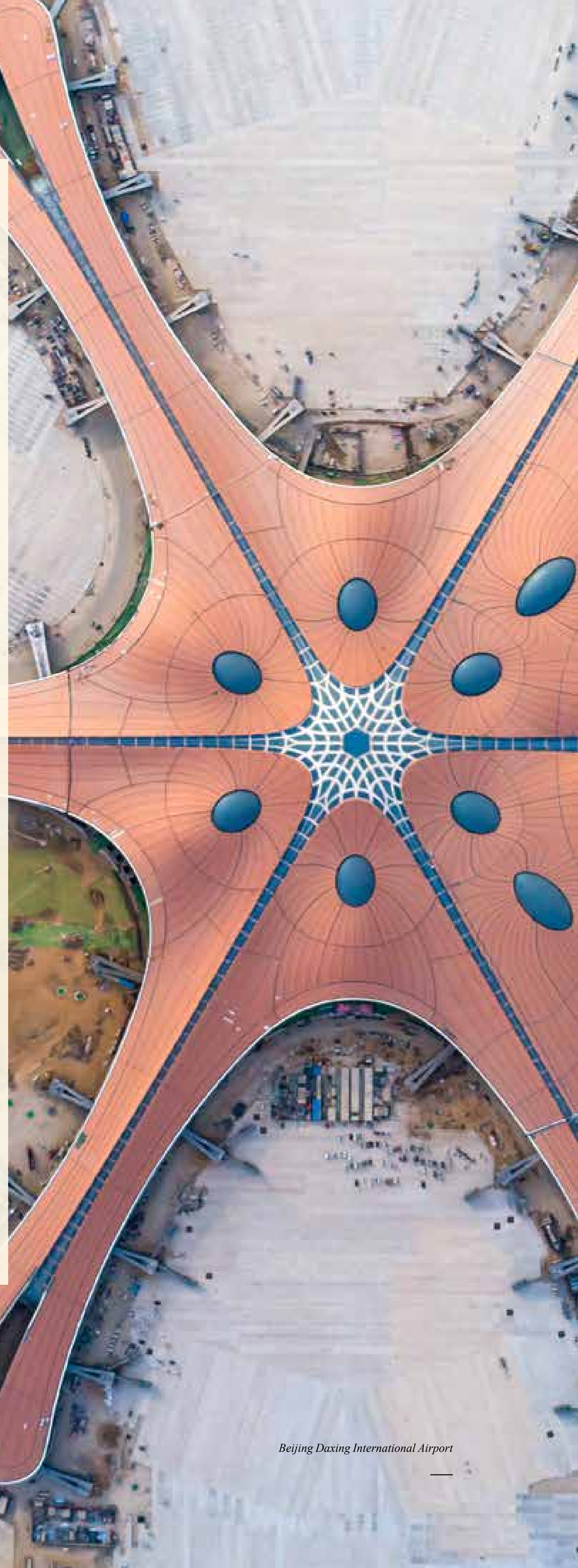
In 2017, Chinese tourists made 145 million overseas trips and spent U$261 billion. Despite China's world leading position, just 7 per cent of its citizens possess a passport. By some estimates, overseas trips by Chinese residents are expected to increase to more than 400 million by 2030, at which point China would account for nearly a quarter of all international tourism. There's a lot of pent up demand.

The growth of both domestic and international tourism in China has necessitated the rapid expansion of the country's airports. A-share listed airports include Guangzhou Baiyun airport (69 million passengers last year), Beijing Capital International (the world's second busiest airport with over 100 million passengers), and Shanghai International Airport (74 million annual passengers).

One exciting company benefiting from growth in travel and tourism is China International Travel Service (CITS), one of China's oldest state-owned enterprises, established in 1954 to provide travel services to the nation. Growth has been closely tied to China's stability, prosperity, reform and development. It is now estimated to be the seventh largest travel retail company in the world.

In recent years, the company has developed from being a large travel-service company with a small but high-margin duty-free component, to become one of the world's biggest and most aggressive duty-free sales operations. It is China's biggest operator of duty-free stores, having acquired its biggest rival in 2017. It has taken control of duty-free sales at China's biggest airports and leaped into the potentially lucrative international markets with concessions at key overseas locations.

CITS market leadership positions the company to benefit from the exciting growth in the industry in years ahead. This shift into a faster growing and more profitable segment is set to drive long-term growth in earnings. CITS is expected to continue to benefit from China's attempts to replace its export-driven development model with a consumption-driven one, with travel an important element. CITS has an aggressive strategy to follow Chinese tourists wherever they go.



Beijing Daxing International Airport

IMPORTANT INFORMATION

Baillie Gifford & Co and Baillie Gifford & Co Limited are authorised and regulated by the Financial Conduct Authority (FCA). Baillie Gifford & Co Limited is an Authorised Corporate Director of OEICs.

Baillie Gifford Overseas Limited provides investment management and advisory services to non-UK Professional/ Institutional clients only. Baillie Gifford Overseas Limited is wholly owned by Baillie Gifford & Co. Baillie Gifford & Co and Baillie Gifford Overseas Limited are authorised and regulated by the FCA in the UK.

Baillie Gifford Investment Management (Europe) Limited provides investment management and advisory services to European (excluding UK) clients. It was incorporated in Ireland in May 2018 and is authorised by the Central Bank of Ireland. Through its MiFID passport, it has established Baillie Gifford Investment Management (Europe) Limited (Frankfurt Branch) to market its investment management and advisory services and distribute Baillie Gifford Worldwide Funds plc in Germany. Baillie Gifford Investment Management (Europe) Limited also has a representative office in Zurich, Switzerland pursuant to Art. 58 of the Federal Act on Financial Institutions (“FinIA”). It does not constitute a branch and therefore does not have authority to commit Baillie Gifford Investment Management (Europe) Limited. It is the intention to ask for the authorisation by the Swiss Financial Market Supervisory Ahority (FINMA) to maintain this representative office of a foreign asset manager of collective assets in Switzerland pursuant to the applicable transitional provisions of FinIA. Baillie Gifford Investment Management (Europe) Limited is a wholly owned subsidiary of Baillie Gifford Overseas Limited, which is wholly owned by Baillie Gifford & Co.

Persons resident or domiciled outwith the UK should consult with their professional advisers as to whether they require any governmental or other consents in order to enable them to invest, and with their tax advisers for advice relevant to their own particular circumstances.

Important Information Hong Kong

Baillie Gifford Asia (Hong Kong) Limited 柏基亞洲(香港)有限公司 is wholly owned by Baillie Gifford Overseas Limited and holds a Type 1 and a Type 2 licence from the Securities & Futures Commission of Hong Kong to market and distribute Baillie Gifford’s range of collective investment schemes to professional investors in Hong Kong. Baillie Gifford Asia (Hong Kong) Limited 柏基亞洲(香港)有限公司 can be contacted at Room 3009-3010, One International Finance Centre, 1 Harbour View Street, Central,

South Korea

Baillie Gifford Overseas Limited is licensed with the Financial Services Commission in South Korea as a cross border Discretionary Investment Manager and Non-discretionary Investment Adviser.

Japan

Mitsubishi UFJ Baillie Gifford Asset Management Limited (‘MUBGAM’) is a joint venture company between Mitsubishi UFJ Trust & Banking Corporation and Baillie Gifford Overseas Limited. MUBGAM is authorised and regulated by the Financial Conduct Authority.

Australia

This material is provided on the basis that you are a wholesale client as defined within s761G of the Corporations Act 2001 (Cth). Baillie Gifford Overseas Limited (ARBN 118 567 178) is registered as a foreign company under the Corporations Act 2001 (Cth). It is exempt from the requirement to hold an Australian Financial Services License under the Corporations Act 2001 (Cth) in respect of these financial services provided to Australian wholesale clients. Baillie Gifford Overseas Limited is authorised and regulated by the Financial Conduct Authority under UK laws which differ from those applicable in Australia.

South Africa

Baillie Gifford Overseas Limited is registered as a Foreign Financial Services Provider with the Financial Sector Conduct Authority in South Africa.

North America

Baillie Gifford International LLC is wholly owned by Baillie Gifford Overseas Limited; it was formed in Delaware in 2005. It is the legal entity through which Baillie Gifford Overseas Limited provides client service and marketing functions in America as well as some marketing functions in Canada. Baillie Gifford Overseas Limited is registered as an Investment Adviser with the Securities & Exchange Commission in the United States of America.

The Manager is not resident in Canada, its head office and principal place of business is in Edinburgh, Scotland. Baillie Gifford Overseas Limited is regulated in Canada as a portfolio manager and exempt market dealer with the Ontario Securities Commission ('OSC'). Its portfolio manager licence is currently passported into Alberta, Quebec, Saskatchewan, Manitoba and Newfoundland & Labrador whereas the exempt market dealer licence is passported across all Canadian provinces and territories. Baillie Gifford International LLC is regulated by the OSC as an exempt market and its licence is passported across all Canadian provinces and territories. Baillie Gifford Investment Management (Europe) Limited ('BGE') relies on the International Investment Fund Manager Exemption in the provinces of Ontario and Quebec.

Oman

Baillie Gifford Overseas Limited ("BGO") neither has a registered business presence nor a representative office in Oman and does not undertake banking business or provide financial services in Oman. Consequently, BGO is not regulated by either the Central Bank of Oman or Oman's Capital Market Authority. No authorization, licence or approval has been received from the Capital Market Authority of Oman or any other regulatory authority in Oman, to provide such advice or service within Oman. BGO does not solicit business in Oman and does not market, offer, sell or distribute any financial or investment products or services in Oman and no subscription to any securities, products or financial services may or will be consummated within Oman. The recipient of this document represents that it is a financial institution or a sophisticated investor (as described in Article 139 of the Executive Regulations of the Capital Market Law) and that its officers/employees have such experience in business and financial matters that they are capable of evaluating the merits and risks of investments.

Qatar

This strategy is only being offered to a limited number of investors who are willing and able to conduct an independent investigation of the risks involved. This does not constitute an offer to the public and is for the use only of the named addressee and should not be given or shown to any other person (other than employees, agents, or consultants in connection with the addressee's consideration thereof). Baillie Gifford Overseas Limited has not been and will not be registered with Qatar Central Bank or under any laws of the State of Qatar. No transactions will be concluded in your jurisdiction and any inquiries regarding the strategy should be made to Baillie Gifford.

Israel

Baillie Gifford Overseas is not licensed under Israel's Regulation of Investment Advising, Investment Marketing and Portfolio Management Law, 5755-1995 (the Advice Law) and does not carry insurance pursuant to the Advice Law. This document is only intended for those categories of Israeli residents who are qualified clients listed on the First Addendum to the Advice Law.

ABOUT THE AUTHOR

BEN BUCKLER
Client Service Director

Ben is a Client Service Director in the Clients Department. He joined Baillie Gifford on the Investment Management Graduate Scheme in 2001 and was an Investment Manager in our Emerging Markets Team until 2008, when he relocated to China. Ben worked in Hong Kong for 6 years as an Executive Director in the Asian Equities business at UBS. He returned to Baillie Gifford in 2018. Ben is a CFA Charterholder and has an MBA from the University of Oxford. He graduated MA in Geography from Mansfield College, Oxford in 2001.

CURIOUS ABOUT THE WORLD

bailliegifford.com/thinking

Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +44 (0)131 275 2000 / www.bailliegifford.com