Baillie Gifford China Growth (BGCG)

Over three-quarters of BGCG's portfolio revenue is generated domestically, making it less directly exposed to global trade frictions...

Update
30 May 2025

Overview

Baillie Gifford China Growth Trust (BGCG) is co-managed by Sophie Earnshaw and Linda Lin, experienced investors who have spent many years analysing and investing in Chinese equities. They aim to build a high-conviction **Portfolio** of China's most promising listed and private companies, looking beyond short-term volatility to uncover mispriced businesses with enduring competitive advantages and strong long-term growth potential. Backed by a ten-strong dedicated China equities team—seven based in Shanghai—and Baillie Gifford's wider global resources, the managers benefit from deep local insight and regular access to company management, particularly founder-led businesses, helping them identify long-term, alpha-rich opportunities.

Their growth-focussed philosophy centres on structural winners: scalable businesses with strong management teams and durable moats, capable of thriving in China's evolving economic landscape. Over the past year, the managers capitalised on widespread deratings—driven by years of weak sentiment and market turbulence—to initiate and add to high-quality positions at attractive valuations. These include domestic-facing consumer names benefitting from targeted government stimulus and companies aligned with China's push for technological self-sufficiency.

The portfolio remains firmly growth-oriented, with minimal exposure to slower-growing state-owned enterprises—a stance that supported performance in 2020 as growth stocks surged post-COVID. However, subsequent years of heightened macroeconomic and geopolitical headwinds challenged the managers' preferred style, contributing heavily to BGCG lagging its benchmark over five years.

However, sentiment began to stabilise in 2024, with targeted stimulus supporting a recovery in domestic consumption, boosting BGCG's returns, resulting in the trust outperforming its benchmark over the past 12 months (see **Performance**). The managers remain optimistic about China's internal growth drivers, particularly around BGCG's positioning to capture tailwinds from continued policy support, innovation in manufacturing and high-end tech, gradual income growth, and further targeted stimulus.

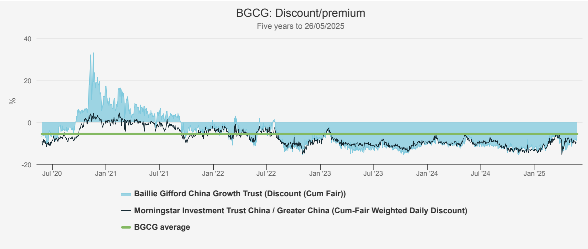
At the time of writing, BGCG trades at a 7.0% **Discount**, wider than its five-year average of 5.7%.

Analysts:

Josef Licsauer
josef@keplerpartners.com

Key Information:

Price (p)	257
Discount/Premium(%)	-7.0
OCF (%)	1.12
Gearing (%)	5
Yield (%)	0.8
Ticker	BGCG
Market cap (£)	150,812,660



Kepler View

Whilst 2025 has brought fresh challenges—particularly a wave of tit-for-tat tariff announcements weighing heavily on sentiment—we believe these have obscured, rather than invalidated, China's long-term investment case. Domestic growth drivers remain encouraging: targeted stimulus, gradual income growth, innovation in high-end tech and manufacturing, and a large household savings base could all support a consumption-led recovery. These factors may help lift sentiment and reinforce China's structural trends.

China remains a market that divides opinion, but its importance to global markets and historically low valuations make current conditions hard to ignore. For those willing to weather short-term uncertainty, this may represent a timely opportunity to access China's long-term growth potential at a discount. We're not advocating a full-scale repositioning into China, but having no exposure could prove painful if sentiment turns—something many experienced during the late-2024 rally.

For high-quality, high-conviction exposure, BGCG stands out. Its portfolio is anchored in domestically oriented growth companies aligned with long-term trends and policy priorities like self-sufficiency—companies likely to benefit from ongoing stimulus, even as global uncertainty lingers. BGCG's access to unlisted opportunities also offers a differentiated source of alpha, reducing reliance on broader market moves.

With sentiment still fragile, any rebound will likely depend on credible policy follow-through and stabilising global trade dynamics. However, given BGCG's alignment with long-term growth sectors and relatively modest exposure to external trade, combined with its current discount—wider than its five-year average—it may offer long-term, patient investors an attractive entry point to China's growth story.

BULL
Benefits from well-established, on-the-ground research teams—an advantage for stock selection
Investing in private companies offers a differentiated source of alpha, reducing the reliance on broader market moves
Exposure to domestic-facing businesses could benefit if recent stimulus measures succeed in reviving the economy

BEAR
Ongoing political and trade tensions could continue to weigh on the discount in the near term
Underweight exposure to SOEs could prove a headwind when domestic investors rotate into defensive sectors like state-owned banks, energy, or utilities
Growth-focussed investment style may lag the benchmark during value-led periods of outperformance

Portfolio

Baillie Gifford China Growth Trust (BGCG) aims to uncover the next generation of China's growth champions by combining global perspectives with deep local knowledge. The managers believe that long-term returns are driven by disruptive trends that reshape industries over years, not months. In their view, this long-term approach is especially relevant in China, where the economic landscape is continually evolving amid geopolitical changes, global supply chain reconfigurations, and technological revolutions.

Co-managers Sophie Earnshaw and Linda Lin take a fundamental, bottom-up approach, building a concentrated portfolio of 40–80 of China's most promising listed and private companies. They look beyond short-term volatility, seeking mispriced businesses with sustainable and enduring competitive advantages boasting strong long-term growth potential. By leveraging their on-the-ground, local insights with Baillie Gifford's global resources, they can evaluate Chinese companies in a global context—assessing business models, competitive dynamics, global supply chains, competition, and broader market trends. Moreover, decades of investing in China have fostered trusted relationships and connections with founders, academics, and industry specialists—offering access to insights beyond conventional sell-side research.

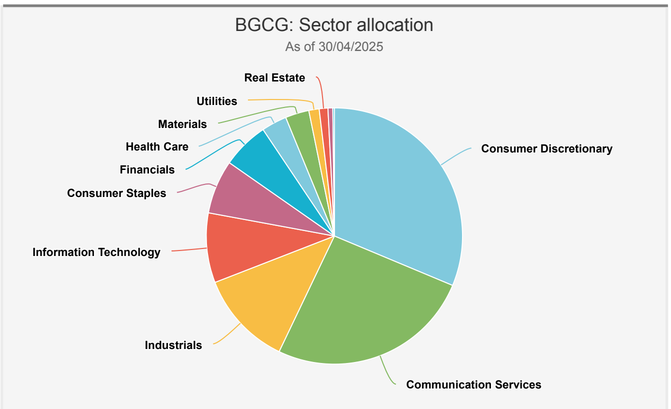
The managers continue to focus on areas of meaningful long-term potential, distilling China's vast investable universe to a select number of companies that they believe are driving significant economic, societal, and cultural change. More recently, the managers have taken advantage of widespread deratings—driven by years of market turbulence—to initiate new, high-quality positions, and also add to existing ones, at compelling valuations.

The portfolio remains heavily tilted towards domestic- and consumer-facing sectors, which the managers see as central to China's economic transformation. Although consumer confidence remains fragile, they are optimistic about China's internal growth drivers, especially through strong policy support, innovation in manufacturing and high-end tech, alongside gradual income growth. Over time, they think targeted stimulus and market adjustments should stabilise demand—an essential ingredient in China's economic resilience.

This outlook is reflected in current holdings. For instance, wealthy consumers continue to favour premium brands, keeping Kweichow Moutai—a core position for the trust—in strong demand. Meanwhile, price-sensitive shoppers are driving growth in value-driven names like Luckin Coffee, now a dominant force in China's coffee market. Experience-based spending is also rebounding, with families returning to Haidilao, a hot-pot restaurant and recent addition to the portfolio. Meituan, another key position added to on weakness, is benefitting from a sharp pickup in travel volumes.

As the economy steadies and stimulus efforts gain traction, the managers argue that China's consumption-led recovery isn't just a possibility—it's a transformation in motion. For active investors, this transformation creates compelling opportunities.

Fig.1: Sector Allocations



Source: Baillie Gifford

Another area of focus for the managers is technology, where they have recently initiated positions in semiconductor equipment manufacturers Naura and AMEC. These companies are poised to benefit from China's push for technological self-sufficiency, as they scale rapidly to support the development of a domestic semiconductor supply chain—an area increasingly shaped by geopolitical pressures. Another notable addition is Horizon Robotics, introduced to the portfolio in 2024. Positioned as China's answer to NVIDIA, Horizon is a rising leader in AI chipmaking, developing cutting-edge hardware and software for smart mobility and artificial intelligence applications across Chinese cities. As trends like autonomous driving and AI computing accelerate globally, the managers see Horizon as a strategic player in the next phase of innovation.

Chinese industrial and manufacturing upgrading is another area where the managers remain optimistic. China continues to be the world's largest exporter, and industrial output grew well in 2024, with production rising by 5.8%. Growth was particularly robust in high-tech sectors such as integrated circuits and electric vehicles (EVs). Two key positions in the trust—CATL, the country's leading battery manufacturer known for its cutting-edge technology, and BYD, which is now challenging Tesla as the global EV sales leader—are helping accelerate China's dominance in these fields.

Conversely, the managers have exited several positions over the past 12 months, consistent with their ongoing review of portfolio holdings. Sell decisions are typically triggered by weakening fundamentals, reduced conviction in company leadership or valuations that fully reflect the manager's long-term view. For example, they sold

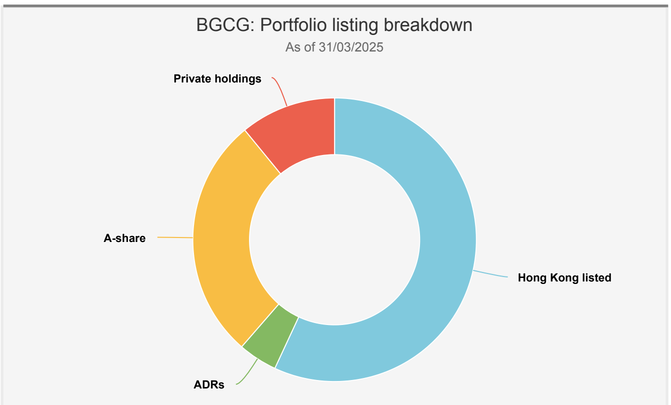
WuXi AppTec, due to risks posed by the US BIOSECURE Act; Asymchem Laboratories, amid growing geopolitical pressure on biotech outsourcing; and LONGi Green Energy, which is navigating challenging oversupply in the solar industry.

Despite recent volatility—exacerbated by tariffs and macro uncertainty—the managers have maintained their long-standing underweight in state-owned sectors such as banks, energy, and utilities. Whilst these areas have offered relative shelter during periods of risk-off sentiment, the managers struggle to find compelling long-term growth stories within them. Currently, less than 10% of the portfolio is allocated to these sectors, compared to around 30% in the index—a positioning stance that has weighed on relative performance in previous years, like 2021–2023 which saw domestic investors retreat to defensive sectors such as state-owned banks, energy, and utilities.

The trust also benefits from flexible listing exposure, whether that be through mainland China or beyond. Today, the portfolio is weighted heavily towards Hong Kong-listed companies, roughly 56%. It has 27% exposure to **A-shares, China's domestic stock exchange**, and a smaller allocation of 4% to American Depositary Receipts (ADRs).

Hong Kong remains an important gateway for foreign capital into China, with many of the country's leading consumer, financial, and technology companies listing there—often offering greater transparency and corporate governance relative to some domestic listings. Meanwhile, A-shares provide access to policy-aligned companies and local champions serving the domestic market, whilst ADRs represent Chinese companies on US exchanges. The current mix reflects the managers' effort to balance domestic and global growth potential, whilst maintaining a firm focus on quality and governance.

Fig.2: Portfolio Listing Breakdown



Source: Baillie Gifford, as of 31/03/2025

BGCG also benefits from its small allocation to private companies, which provides a differentiated source of alpha, reducing reliance on broader market moves. Currently, the trust holds a single unlisted investment—ByteDance—which represents around 10.8% of the portfolio. Whilst the managers have scope to invest up to 20% in unlisted assets, they remain highly selective, committing only when long-term conviction aligns with attractive entry valuations.

ByteDance, whose valuation is overseen by Baillie Gifford with independent input from S&P Global and the board, is currently valued slightly above recent secondary market prices and below the level used in the company's 2024 buyback. Since its acquisition, ByteDance has risen 74% in sterling terms, making it BGCG's single largest contributor to outperformance. Whilst private investments offer the potential for significant upside, they also come with inherent risks around liquidity and valuation transparency—factors the board monitors closely. However, it's also important to note that part of the business—specifically its US-facing TikTok operation—remains subject to heightened political and regulatory scrutiny, including ongoing discussions around forced divestment, which may affect future valuations.

Overall, despite the volatility stemming from heightened geopolitical tensions and tariff-related uncertainty, BGCG's strategy remains focussed on identifying companies positioned to thrive in China's evolving economic landscape. Whilst recent trade dynamics may create short-term volatility, the managers don't believe they undermine the long-term case value or growth potential in China. If anything, they argue that these developments are broadening the opportunity set for experienced, active investors. Furthermore, the managers' bias toward domestically oriented companies makes BGCG less directly exposed to global trade frictions than headline market moves might suggest, and in fact, such conditions could accelerate targeted stimulus measures, particularly in consumption, where BGCG is already well-positioned.

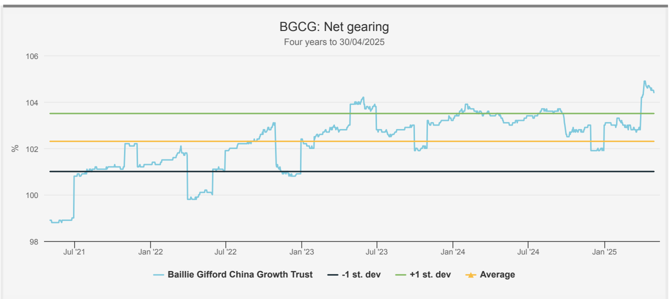
Gearing

The board has set a maximum borrowing limit of 25% of gross assets, though it typically anticipates gearing to remain below 20%, in normal market conditions. Currently, gearing is employed through a two-year $25m revolving credit facility (RCF) due to expire in April 2026. If fully drawn, this would equate to approximately 15.6% of NAV. As of the end of BGCG's latest financial year ending January 2025, only $7.5m of the RCF was drawn, leaving room for additional gearing within the board's limit, if needed.

As of March 2025, BGCG's net gearing stood at 5.0%. Having spoken to the team recently, they are comfortable with this level, finding sufficient high-quality investment opportunities without the need for increased leverage. Moreover, they remain mindful of macroeconomic headwinds—such as geopolitical tensions and trade dynamics—that can quickly shift sentiment and impact returns.

Whilst gearing can enhance gains, it can just as easily amplify downside risks. In the current environment, where external factors largely outside the managers' control can drive market volatility, the team believe that maintaining a moderate level of gearing is the more prudent approach.

Fig.3: Gearing



Source: Morningstar

Performance

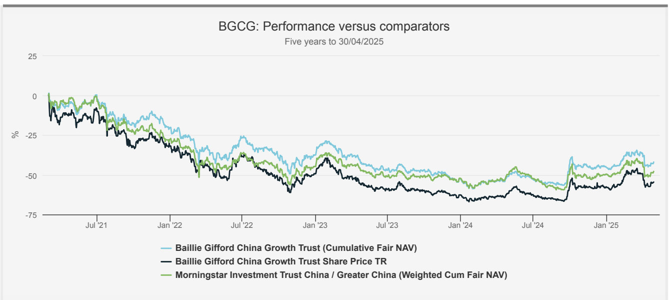
The macro situation in China has been difficult to ignore over the past five years and we believe it is important to view BGCG's performance through this wider lens. Chinese equities have experienced a boom-and-bust cycle over this period: a strong rally in 2020 saw growth stocks surge, fuelled by China's rapid post-COVID recovery, effective virus containment, and robust policy support. Growth-focussed strategies like BGCG performed well in this environment.

However, the years that followed gave way to a prolonged period of market malaise. A multitude of intense macroeconomic and geopolitical headwinds—including a sluggish recovery post-lifting its zero-COVID policies, ongoing property sector weakness, regulatory crackdown, and escalating global tensions—took a heavy toll on sentiment, triggering a sharp market sell-off and pushing investors to seek alternative emerging market exposure.

Adding to these challenges, the global shift in interest rates from 2021 onwards hit long-duration growth stocks particularly hard. BGCG, as the most growth-oriented trust in the China sector, was structurally underweight the more cyclical or value-led companies that performed better during this phase, creating another performance headwind.

Together, these pressures contributed to BGCG lagging its benchmark, the MSCI China All Share Index. Over the five-year period to 30/04/2025, BGCG delivered NAV total returns of -42.0% compared to index returns of -29.4%, although this period reflects an element of the previous management, given Baillie Gifford took over in September 2020.

Fig.4: Five-Year Performance



Source: Morningstar

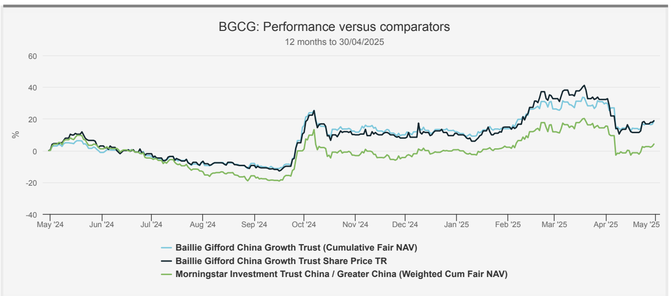
Past performance is not a reliable indicator of future results.

However, as sentiment began to stabilise in 2024—and targeted stimulus in the second half of the year served as an important inflexion point for domestic growth—BGCG's performance rebounded.

The trust has delivered positive relative returns over the past 12 months to 30/04/2025, delivering 18.5% compared to the MSCI China All Share Index's 10.5% return. During this period, Meituan was a standout contributor. The company announced its full-year 2024 results recently, citing fourth-quarter revenues growing by over 20% year-over-year and net profit for the year surging 180% to $858m, despite facing stiff competition.

BGCG also benefits from the flexibility to invest in private companies (see **Portfolio**), which allows the team to generate genuinely differentiated sources of alpha and reduces dependence on market direction for returns. At the time of writing, the trust holds a single private position in ByteDance, which contributed strongly to performance over the year, returning around 38% on the back of sustained top-line growth and peer group multiple expansion.

Fig.5: One-Year Performance



Source: Morningstar

Past performance is not a reliable indicator of future results.

However, 2025 has brought a fresh set of challenges—chiefly in the form of escalating tariff tensions sparked by President Trump's reciprocal tariff plan, which has weighed heavily on sentiment. Whilst the US announced a 90-day tariff pause, China was notably excluded, adding further unease for investors. However, China and the US have agreed to lower their mutual tariffs following high-level trade talks in Geneva in early May, an agreement which will apply temporarily for 90 days. So far the negotiation appears to be heading in the right direction, but uncertainties remain.

Despite these headwinds, many of BGCG's holdings have proven resilient and are well-positioned for growth. Around 80–85% of the portfolio's revenue is generated domestically, reducing its direct exposure to global trade frictions and making domestic policy developments more relevant to performance. Whilst President Trump's proposed tariffs have added headline risk, the managers note that direct US revenue exposure remains relatively low for most Chinese corporates. If anything, such developments could spur more targeted domestic stimulus—particularly in consumption—where the trust is already well-positioned. Therefore, despite tariff uncertainties, the trust has held up well against the market, particularly since the decisive 'pro-growth' policy pivot last year. Notably, the Chinese market itself has also held up well against the US.

That said, there have been several stock-specific detractors over the period. Not holding Xiaomi hurt performance, as its shares rallied on positive sentiment around its new EV business. Meanwhile, existing holdings like InnoLight—a key supplier of optical transceivers for AI infrastructure—declined following weaker-than-expected results and broader weakness in global tech. Kingmed, a diagnostics group, also fell, with net income down amid concerns over margins and receivables.

Overall, we believe BGCG remains suited to long-term, patient investors. The trust has delivered strong relative returns over the past year, buoyed by its domestic-oriented, growth positioning. As growth returns to favour, BGCG's distinctive approach may yet prove a source of long-term outperformance.

Dividend

BGCG's stated dividend policy is to pay a single final dividend each year, at a level that preserves its investment trust status, meaning it must pay out at least 85% of net income arising during any accounting period.

Income is not a primary objective for the managers, and the portfolio is not constructed with a target yield in mind. Instead, Sophie and Linda focus on pursuing strong total return through long-term capital growth, with any income generated seen as a by-product of the investment process.

In BGCG's latest financial year ending January 2025, it reported a modest 4.5% rise in revenue return per share, from 2.42p to 2.53p. This largely reflected rising dividend payout ratios from several portfolio companies, underpinned by their steadily improving capital discipline. On the back of this, the board proposed a final dividend of 2.20p per share, up 10% on the previous year. Subject to shareholder approval, this dividend will be paid to shareholders on 25/07/2025.

Whilst this year's increase is positive, investors should keep in mind that BGCG's focus remains on achieving a strong total return, with most future gains expected to come from capital gains, rather than a growing income. That said, BGCG maintains healthy revenue reserves—equivalent to roughly 5.7x its last annual dividend.

At the time of writing, BGCG's dividend yield stands at approximately 0.7%, compared with 2.2% for the MSCI China All Share Index.

Management

Currently, BGCG is co-managed by Sophie Earnshaw and Linda Lin, both experienced investors with deep knowledge of Chinese equities. Sophie joined Bailie Gifford in 2010 and has been a co-manager on the China strategy since 2014. She is also a decision-maker on the China A Share Fund.

Linda joined the firm in 2014 and is an investment manager within the China equities team. She is also a decision-maker on Baillie Gifford's All China and China A share strategies, alongside being a member of the Long Term Global Growth team. After initially working in Edinburgh, she relocated to Shanghai in 2019 to establish and lead the firm's local investment team, before returning to Edinburgh in 2022 following her appointment as a partner.

We think one of BGCG's defining strengths is the depth and breadth of Baillie Gifford's research capabilities. The managers are supported by a ten-strong, dedicated China equities team, comprising seven investment managers, two analysts and an ESG specialist—seven of whom are based in the Shanghai office. This local, on-the-ground presence provides the team with regular access to company management, helping build strong long-term relationships with founder-led businesses, whilst delivering critical cultural and linguistic context—particularly important in a market where many companies report exclusively in Chinese.

The team's on-the-ground perspective is further enhanced by a network of local consultants, including academics, journalists, and sector specialists, who contribute to independent corporate and legal due diligence. In addition to their specialist China team, the managers also benefit from Baillie Gifford's global investment resources. These wider teams not only offer macro and thematic analysis relevant to China but also contribute alternative perspectives, challenge assumptions, and generate new ideas—enriching the team's understanding of broader trends and sharpening the investment process.

Discount

In the latter part of 2020 and early 2021, BGCG traded at a premium—buoyed by China's rapid post-COVID recovery, effective virus containment, and robust policy support. The trust's growth-oriented strategy also aligned well with market trends at the time, with investors rewarding its exposure to innovative, entrepreneurial companies leading China's economic evolution.

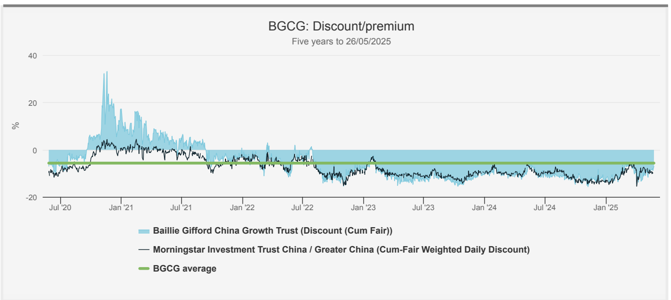
Since then, however, the picture has shifted dramatically. A confluence of macroeconomic and geopolitical headwinds has weighed heavily on sentiment, pushing BGCG out to a discount. Tensions with the US—exacerbated by tariffs—have emerged as a dominant concern. Domestically, a sluggish post-pandemic recovery, persistent property sector distress, and weak consumer confidence have also dented investor appetite for Chinese equities and put pressure on the economy, driving a broad-based de-rating across China-focussed investment trusts. BGCG has not been immune.

We also believe BGCG's relative **Performance** has played a role in its discount widening. China's equity market has endured a tough five years, and BGCG, as the most growth-focussed trust in its sector, has been hit hard, underperforming the MSCI China All Share Index over this period. Investors have tended to favour the perceived safety of state-owned banks, energy, and utility companies—sectors the trust deliberately avoids and sectors that the index is well-represented. That rotation, along with the broader underperformance of growth as a style, has weighed on returns and, by extension, sentiment.

However, when sentiment turns more positive, Chinese equities can rally quickly. This was evident in late 2024 when a wave of coordinated policy support helped spark a broad-based rally. With its domestically focussed portfolio, particularly in sectors benefitting from further stimulus, BGCG has captured some of this growth already, with performance over the past 12 months picking up quickly and outpacing the MSCI China All Share Index on a relative basis.

A pickup in performance and returning sentiment could help narrow its current wider-than-average discount, adding an extra kicker to returns. At the time of writing, BGCG trades at a 7.0% discount, compared to its five-year average of 5.7%, meaning for investors looking to capture the long-term growth potential in China, but willing to look through the near-term noise, the trust's current discount could represent a compelling entry point.

Fig.6: Discount



Source: Morningstar

The board recognises the need to address any sustained and significant imbalance between buyers and sellers, which could cause shares to trade at an anomalous discount or premium to NAV. Whilst no formal targets are in place, it has been proactive in conducting share buybacks when appropriate.

In BGCG's latest financial year ending 31/01/2025, the board bought back 2,760,000 shares, representing 4.5% of shares in issue at the beginning of the period (31/01/2024)—at an average discount of 11.0%, adding around 0.5% to the NAV. Since then, it has bought back a further 413,711 shares, or 0.7% of shares in issue as of 26/05/2025.

In addition to these buybacks, the board introduced a performance-related tender offer in November 2024. Under this tender offer, if BGCG's NAV total return fails to exceed that of its benchmark over the period from 29/11/2024 to 30/11/2028, 100% of the issued share capital will be repurchased at a price close to the prevailing NAV, adjusted for associated costs of the tender offer. We think this conditional tender offer mechanism not only provides investor protection, ensuring that investors have an exit option if the trust fails to meet its performance targets, but also reinforces the board's commitment to long-term performance.

Charges

BGCG's latest ongoing charges figure (OCF) is 1.12%, putting it between the other two trusts in the AIC's China/Greater China sector. Fidelity China Special Situations (FCSS) and JPMorgan China Growth & Income (JCGI) report OCFs of 0.98% and 1.18% respectively. The slight uptick in OCF in recent years reflects the impact of fixed costs on a smaller trust with lower average net assets.

The OCF does include a tiered annual management fee, starting at 0.75% on the first £50m of NAV; 0.65% on the next £250m; and 0.55% beyond that—calculated and payable quarterly. This structure provides the potential for costs to fall as the trust grows in size. Based on BGCG's current net assets of roughly £160m, we calculate a blended management fee of 0.67%. Of this, 75% is charged to capital and 25% to revenue. There is no performance fee.

According to BGCG's latest KID document (dated 08/11/2024), its RIY is 0.0%. However, regulatory changes to KID RIYs are imminent, and whilst their phase-out appears likely, the outcome remains uncertain.

ESG

China's market presents ESG challenges—from limited disclosure to inconsistent data and state involvement in key sectors. Yet Baillie Gifford sees this as an opportunity, believing that thoughtful ESG integration can uncover both risks and opportunities with significant long-term growth potential.

Rather than relying on external ESG ratings—which the team believe are often inconsistent, incomplete, and incomparable—they embed ESG into their fundamental analysis and pre-investment research, assessing each company's potential risks but also contribution to China's economic, societal, and environmental development. Data is a useful starting point for insight and engagement—not a box-ticking exercise—and where standards fall short, the team pursue active engagement over exclusion, supported by its firm-wide Engagement Hub, launched in 2024.

Whilst BGCG does not carry a sustainable investment label under the FCA's new regime, its portfolio scores well on Morningstar's sustainability metrics. As of April 2025, it gave BGCG four out of five globes, considering both open- and closed-ended funds in the China/Greater China sector, and was also awarded the 'Low Carbon Designation' due to its relatively low carbon score versus the benchmark.

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