Baillie Gifford

Baillie Gifford China Fund

31 March 2024

About Baillie Gifford

Philosophy	Long-term investment horizon A growth bias Bottom-up portfolio construction High active share
Partnership	100% owned by 57 partners with average 21 years' service Ownership aligns our interests with those of our clients Enables us to take a thoughtful, long-term view in all that we do Stability, quality and consistency

Investment Proposition

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

Fund Facts

Fund Launch Date	19 November 2008
Fund Size	£212.6m
IA Sector	China/Greater China
Active Share	70%*
Current Annual Turnover	16%
Current number of stocks	55
Stocks (guideline range)	40-80

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

Fund Manager

Name	Years' Experience
Linda Lin*	14
Sophie Earnshaw	14

*Partner

Fund Objective

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

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

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

Periodic Performance

	3 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)
Class B-Acc (%)	-4.2	-25.7	-20.1	-3.1
Index (%)*	-0.1	-18.2	-13.4	-3.2
Target (%)**	0.4	-16.6	-11.7	-1.2
Sector Average (%)***	-0.6	-20.7	-15.6	-3.3

Source: FE, Revolution, MSCI. Total return net of charges, in sterling.
Share class returns calculated using 10am prices, while the Index is calculated close-to-close.
Baillie Gifford operates a single swinging price for the Fund and, therefore, may apply a dilution adjustment to the price to protect long-term investors from the costs associated with buying and selling underlying investments that result from other investors joining or leaving the Fund. This adjustment will affect relative performance, either positively or negatively.
*MSCI Golden Dragon Index to 02/05/2019, MSCI All China Index to 26/11/19 thereafter MSCI China All Shares Index.
**MSCI China All Shares Index (in sterling) plus at least 2% per annum over rolling five-year periods from 27/11/2019; from 02/05/2019 MSCI All China Index plus 2%; previously MSCI Golden Dragon plus 2%.
***IA China/Greater China Sector.

Discrete Performance

	31/03/19-31/03/20	31/03/20-31/03/21	31/03/21-31/03/22	31/03/22-31/03/23	31/03/23-31/03/24
Class B-Acc (%)	5.8	58.5	-27.6	-5.1	-25.7
Index (%)*	-0.3	31.2	-20.5	-0.2	-18.2
Target (%)**	1.7	33.9	-18.9	1.8	-16.6
Sector Average (%)***	-0.2	40.9	-21.5	-3.6	-20.7

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
China's lacklustre domestic economy remained a key driver of domestic stock markets this quarter. Despite reporting 5.2% GDP growth for 2023, economic indicators show a lack of momentum across many areas. China is suffering from a deficit of demand because of low wage growth, post-covid confidence and a weak property sector. This impacted equity markets, with January particularly weak. This did trigger the authorities to step in and attempt to shore up sentiment prior to Chinese New Year with a number of policy measures that helped reverse market declines.

For macroeconomic watchers, China's annual meetings of China's legislature (NPC) and political advisory body (CPPCC), saw Premier Li's inaugural delivery of the government's approach to its economy, politics and foreign policy. We'd argue there is far too much time and effort spent analysing China's GDP growth target, which at 'around 5% in 2024' is largely as expected yet may be challenging given a higher base in 2023 and relatively underwhelming stimulus to date.

More interesting from a portfolio perspective is the focus on "new productive forces", where a number of holdings should benefit, over time, from proposals to consolidate and expand China's leading position in areas such as intelligent connected electric vehicles, and 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.

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

Performance
The Fund underperformed its respective index during the quarter. Top contributors to performance included Zijin Mining, Meituan and Popmart.

Zijin Mining delivered record copper and gold production in 2023, driven by key project launches which helped counter cost pressures. At its annual results briefing, management highlighted their expectation for additional yearly copper production of 100,000 tonnes and 10% gold production growth in the coming five years, and a stronger focus on cost control in the coming year.

Meituan has seen its share price fall significantly over the last year on fears over greater industry competition and a slower consumption backdrop. However, it has continued to report strong growth and management's commitment to reduce the losses from new business areas was taken positively this quarter. We visited Meituan's founder in Beijing in January and added to the shares thereafter.

Popmart is a character-based entertainment company. The company reported very strong growth in revenues and profits for 2023 and provided ambitious growth targets for 2024. The company has a strong, and growing, line up of product aimed directly at the younger generations, a cohort with increasing consumption power and radically different tastes to their elders. We are impressed by the resilience of its products in the domestic market and the rapid growth in its overseas business.

The top detractors were Silergy, Zhejiang Sanhua and PDD.

Silergy, an analog chip designer, was a top performer last quarter but became the largest detractor during this quarter. Such volatility is expected given the cyclicality in the semi-conductor sector which can often override structural factors as drivers of the share price in the short term. Silergy's gross margins for the fourth quarter were lower than had been anticipated which led to lowered earnings estimates. However, the company projects its 2024 sales to return to normal growth of 20-30%, inventory has declined substantially and the business is recovering from cyclical lows.

PDD is a fast-growing eCommerce platform which, like Silergy, was a top performer last quarter but among the top detractors this quarter. There is clearly a challenge when trying to read into quarterly share price movements and we prefer to focus on longer term dynamics. Despite delivering very strong growth for 2023, PDD's share price was hurt by negative reporting about its accounting practices and governance. We met with management during the quarter.

Zhejiang Sanhua is the world's largest manufacturer of refrigeration control components and thermal management components. In part of its business, Sanhua provides the electronics valves and thermal management modules for electric vehicles. Its share price was negatively impacted this quarter by media reports of potential upcoming US restrictions on the imports of Chinese manufactured cars. With US elections later this year, we expect geopolitical risks will remain a concern for a number of Chinese companies, albeit that the long-term structural opportunities continue.

Stewardship

Having visited the first zero-carbon battery factory in the world, run by CATL, last quarter, we continued the dialogue around the company's net zero pathway and supply chain management. As the world's leading EV battery manufacturer, CATL plays a significant role in the energy transition, but this brings its own challenges. We are encouraged by the significant uptick in their own green power utilisation. We also sought greater clarification and disclosure around the audit programme's operational breadth and supplier selection criteria.

Notable transactions

Market volatility, operational developments and opportunities provided by low valuations led to a pickup in transactions this quarter. A new purchase was made of Luckin Coffee. Additions were made to CATL, Kweichow Moutai, Meituan and Netease. Complete sales were made of Wuxi Apptec, JD.com and Yunnan Energy New Materials, and reductions made to Alibaba and Zijin Mining.

Market Outlook

China's economy continues to transition away from its old model of property led growth to a new model of innovation led growth. There is clearly a risk that the government fails to manage this transition successfully. However, we remain cautiously optimistic. Stabilisation in the property sector could be very meaningful for consumer confidence, which could in turn be very meaningful for domestic demand. China has made significant progress in areas such as renewable energy, electric vehicles and, increasingly, semiconductors, highlighting the enormous growth opportunities to Chinese companies whose business strategies are aligned to China's national objectives. These opportunities are reflected in the operational performance of the companies in the portfolio, but broader sentiment has led to an extraordinary divergence between earnings and value.

Many things such as regulation, the more public prominence of the Chinese Communist Party, geopolitics and the domestic economy have changed in recent years, but there are a number of things that haven't. Our travels, alongside insight from on the ground, continue to highlight an entrepreneurial spirit driving companies to challenge entrenched incumbents, and the huge spoils available to domestic victors. As such, despite a difficult period of performance, we continue to believe that China remains an exciting hunting ground for growth investors. With valuations low in both an absolute and relative sense, we believe that the opportunity in China has becoming even more compelling. As such, we remain optimistic about future returns.

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to 31 March 2024

Stock Name	Contribution (%)
ZiJin Mining	0.6
Meituan	0.5
Midea	0.4
China Merchants Bank	0.3
CATL	0.3
Pop Mart International Group	0.3
Brilliance China Automotive	0.3
Wuxi Biologics	0.2
Weichai Power	0.2
NIO	0.2
Silergy	-0.8
Shandong Sinocera Functional Material	-0.6
Zhejiang Sanhua Intelligent Controls	-0.5
PDD Holdings	-0.5
WuXi AppTec	-0.4
Yonyou	-0.4
JD.com	-0.4
Sinocare	-0.3
SG Micro	-0.3
Sunny Optical Technology	-0.3

One Year to 31 March 2024

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

Source: Revolution, MSCI. Baillie Gifford China Fund relative to 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 January 2024 to 31 March 2024.

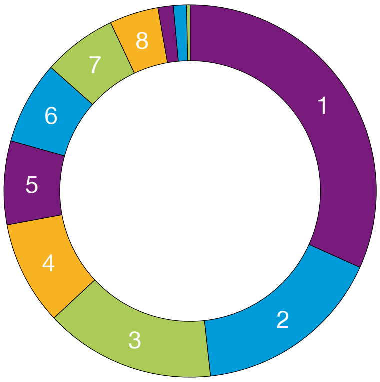
New Purchases

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

Complete Sales

Stock Name	Transaction Rationale
JD.com	JD is an ecommerce platform and retailer with particular strengths in logistics and a focus on top tier cities. The weaker economic backdrop and regulatory challenges for big tech companies in China have exacerbated competitive challenges and slowed growth in the sector. Although JD has net cash and a low valuation, it is unclear that its growth profile is sufficient to meet our investment requirements. We have decided to sell the position and consolidate into holdings which we believe are better placed to deliver profitable growth over the long-term.
WuXi AppTec	Wuxi Apptec is a global leader in outsourced drug research, development and manufacturing. Its technological competence and attractive cost base have enabled it to forge close relationships with a broad customer base, including global pharmaceutical companies and biotech start-ups. This competitive edge has resulted in the company taking significant share in the world's largest pharmaceutical market, the US. Wuxi now generates approximately 65% of revenue from this market. Unfortunately, we believe that this revenue and the company's future growth may now be at risk due to the Biosecure Act being debated in Congress. The Act was proposed in early 2024 and, if passed, would block US government agencies and contractors from doing business with Wuxi. Wuxi does not rely heavily on US government contracts, but many of its large US customers do. As such, Wuxi may lose these customers, along with any funding that it receives for its US facilities. More intangibly, the company's reputation globally may have been impacted negatively by the Act thereby limiting future growth. Whilst there is a chance that, on this occasion, the Act will be watered down or not passed into law, we worry that similar headwinds will continue to plague the company and that the reputational damage may have already been done. The valuation has corrected significantly since the beginning of the year but does not reflect what we believe to be the company's reduced growth opportunity or the likely operational impact on the company if the Act is passed in its current form. As such, we have decided to sell the shares.
Yunnan Energy New Material	Yunnan Energy New Material is a leading manufacturer of separators for lithium-ion batteries. The investment case was built around China's leadership in electric vehicle sales, scale in its supply chains and the large growth opportunity this offered. A recent assessment of the portfolio's holdings in the sector highlighted a growing concern around pricing pressure within the separator market both from competitors and from customers, as well as lower conviction in Yunnan Energy's competitive advantages relative to other portfolio holdings. As such, we have decided to sell the holding and use the proceeds to add to the position in CATL.

Sector Exposure



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

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

Voting Activity

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

We strengthened engagement with CATL around transparency, board stability and supply chain management
KE Holdings saw an upgrade to its Environmental, Social and Governance (ESG) rating due to stronger data security measures
An in-person meeting with PDD discussed their international regulatory engagement, compliance alongside business expansion, and ESG disclosures

Company Engagement

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

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 %
Tencent	10.2
Kweichow Moutai	6.4
Alibaba	5.3
Meituan	5.1
PDD Holdings	4.3
NetEase	3.2
China Merchants Bank	3.2
CATL	3.2
Midea	2.8
Zijin Mining	2.7
Ping An Insurance	2.7
Zhejiang Sanhua Intelligent Controls	2.4
BeiGene	2.2
Shenzhou International	2.1
Shenzhen Inovance Technology	1.9
Proya Cosmetics	1.8
Fuyao Glass Industry	1.8
Haier Smart Home	1.8
Weichai Power	1.7
Guangzhou Kingmed Diagnostics Group	1.7
Shandong Sinocera Functional Material	1.6
Centre Testing International	1.6
Shenzhen Megmeet Electrical	1.5
Silergy	1.4
Ping An Bank	1.4
Brilliance China Automotive	1.4
Anker Innovations	1.4
Estun Automation	1.4
ENN Energy	1.3
Huayu Auto Systems	1.3
Li Ning	1.3
KE Holdings	1.1
BYD Company	1.1
Luckin Coffee	1.1
Sungrow Power Supply	1.0
Kingdee International Software	1.0
Pop Mart International Group	1.0
Hangzhou Robam Appliances	0.9
Yifeng Pharmacy Chain	0.9
SG Micro	0.9
Yonyou	0.9
Asymchem Laboratories	0.8
Kuaishou Technology	0.8
Sinocare	0.7
Kingsoft	0.7
LONGi Green Energy Technology	0.6
Minth Group	0.6
Jiangsu Azure	0.6
Beijing United Information Technology	0.6

Asset Name	Fund %
Topchoice Medical Investment	0.6
Sunny Optical Technology	0.5
Medlive Technology	0.5
Dongguan Yiheda	0.4
Glodon Company	0.4
Guangdong KinLong	0.3
Cash	-0.3
Total	100.0

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	0.76
Class B-Acc	19 November 2008	GB00B39RMM81	B39RMM8	0.72	0.76

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.

MSCI	Source: MSCI. 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.

Additional Geographical Location Information

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

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

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

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

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

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