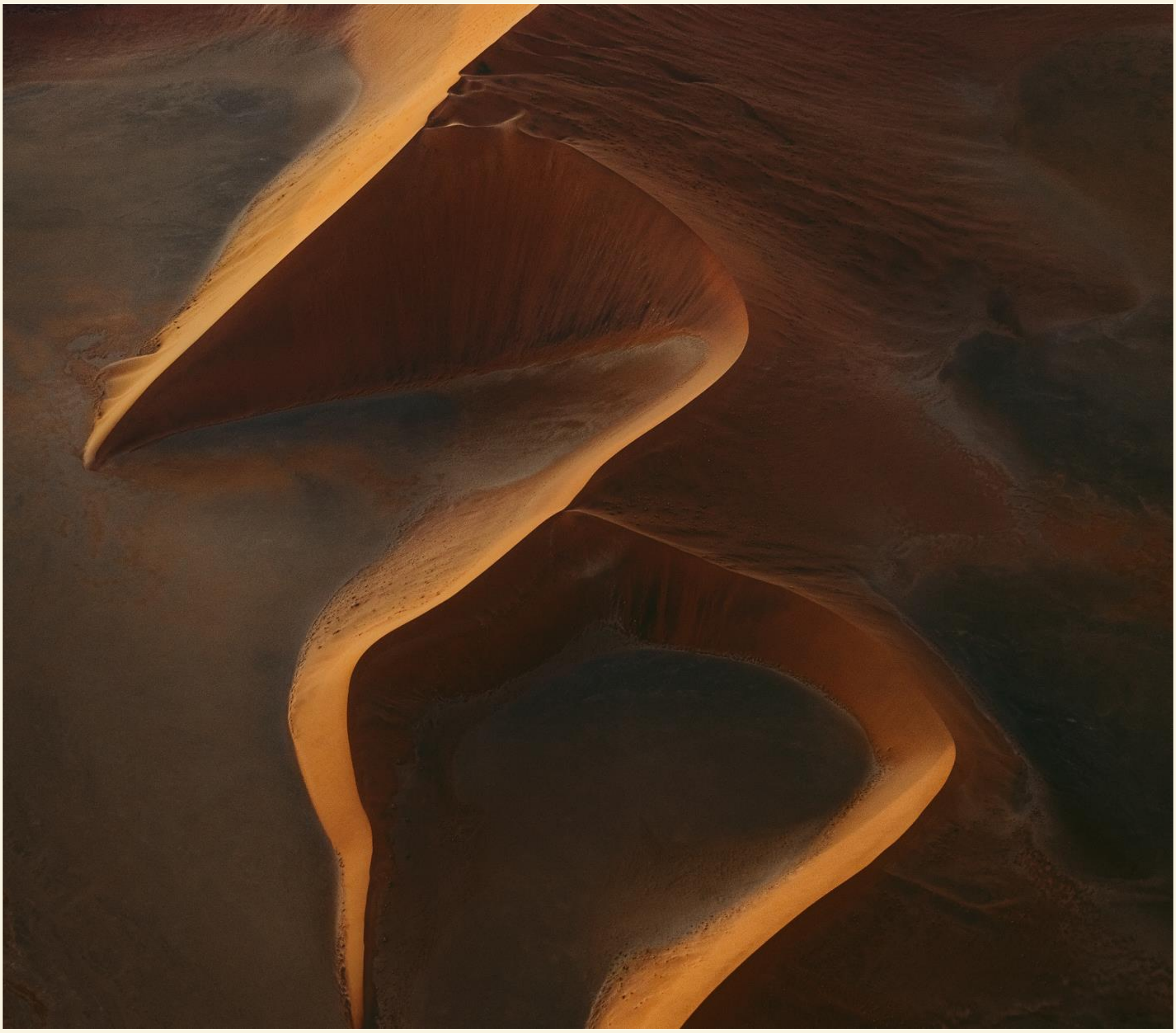
BAILLIE GIFFORD

China Quarterly Update

30 June 2021



Contents

This document is solely for the use of professional investors and should not be relied upon by any other person. It is not intended for use by retail clients.

Important Information and Risk Factors

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 Financial Conduct Authority.

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 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 Suites 2713-2715, Two International Finance Centre, 8 Finance Street, Central, Hong Kong, Telephone +852 3756 5700.

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. Similarly, it has established Baillie Gifford Investment Management (Europe) Limited (Amsterdam Branch) to market its investment management and advisory services and distribute Baillie Gifford Worldwide Funds plc in The Netherlands.

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 Authority (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.

This document 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.

All information is based on a representative portfolio, new client portfolios may not mirror the representative portfolio exactly. As at 30 June 2021, in US dollars and sourced from Baillie Gifford & Co unless otherwise stated.

Canada

Baillie Gifford International LLC is wholly owned by Baillie Gifford Overseas Limited; it was formed in Delaware in 2005 and is registered with the SEC. It is the legal entity through which Baillie Gifford Overseas Limited provides client service and marketing functions in North America. Baillie Gifford Overseas Limited is registered with the SEC 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.

South Africa

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

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.

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.

Australia

Baillie Gifford Overseas Limited (ARBN 118 567 178) is registered as a foreign company under the Corporations Act 2001 (Cth) and holds Foreign Australian Financial Services Licence No 528911. This material is provided to you on the basis that you are a "wholesale client" within the meaning of section 761G of the Corporations Act 2001 (Cth) ("Corporations Act"). Please advise Baillie Gifford Overseas Limited immediately if you are not a wholesale client. In no circumstances may this document be made available to a "retail client" within the meaning of section 761G of the Corporations Act. This material contains general information only. It does not take into account any person's objectives, financial situation or needs.

Qatar

The materials contained herein are not intended to constitute an offer or provision of investment management, investment and advisory services or other financial services under the laws of Qatar. The services have not been and will not be authorised by the Qatar Financial Markets Authority, the Qatar Financial Centre Regulatory Authority or the Qatar Central Bank in accordance with their regulations or any other regulations in Qatar.

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.

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.

Past Performance

Past performance is not a guide to future returns. Changes in investment strategies, contributions or withdrawals may materially alter the performance and results of the portfolio.

Potential for Profit and Loss

All investment strategies have the potential for profit and loss.

Stock Examples

Any stock examples, or images, used in this paper 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. A full list of portfolio holdings is available on request.

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

Ref: 53265 INS QR 0243

Product Overview

Greater China is a regional equity strategy that adds value through active management by identifying and exploiting inefficiencies in growth companies predominantly listed in, or deriving most of their revenues or profits from, China, Hong Kong and Taiwan.

Risk Analysis

Key Statistics	
Number of Holdings	63
Typical Number of Holdings	40-80
Active Share	65%*
Rolling One Year Turnover	36%

*Relative to MSCI China All Shares. Source: Baillie Gifford & Co, MSCI.

Baillie Gifford Key Facts

Assets under management and advice	US$486.8bn
Number of clients	730
Number of employees	1,488
Number of investment professionals	300

I suspect I'm not alone in having formed new habits in the last 18 months; some good, some no doubt less so. One such habit (and I'll let the reader decide in which column this falls) is the discovery of what seems to me the only viable way of consuming the weekly *Economist*. I find this magazine both useful and tedious in equal measure. It provides a helpful summary of information but delivers it in such bland and at times sanctimonious fashion as to make reading the physical copy almost intolerable. With working from home having rid me of my morning commute, I now start the day with a brisk walk, listening to the downloaded version through the app, immediately rendering the experience both more tolerable and likely to be sustained.

In addition to the dual purpose of exercise and information, this new routine ticks an important third box. It rescues me from the risk of existing solely in my own, comfortable echo chamber. I find the magazine's trenchant views and the singular, unbending prism through which it views all world events to be deeply irritating. It strikes me that it invariably imposes predictable, binary judgements on issues that are far more complex and deserving of nuance. This is far more useful than having my own prejudices confirmed.

What struck me recently, however, is how many of the magazine's shibboleths are being challenged, and these uncertainties seem to be mirrored by the investment community at large. It feels like we are in a holding pattern as we await the end of Covid and investors search for what new theme will drive markets in either direction. Will it be interest rates, the US dollar, geopolitics, the green economy, inflation, deflation, a commodity squeeze or a return of value over growth? Of course, the only real answer is nobody knows, not me, not the *Economist* and certainly not politicians or central bankers.

We should not see this as a failing, it's liberating! When you consider the level of commercial disruption that we're seeing across multiple industries allied with new paradigms of monetary policy then it is also not in the least surprising. To cling to an investment strategy predicated on a belief that value is back, or inflation is certain to return or that the US and China are on an inevitable path to war strikes us as foolhardy in the extreme. Hold your views lightly, acknowledge the uncertainties, embrace them even, and above all, remain open-minded.

We hope this approach is clearly reflected in your portfolio. As you should expect, the one common tenet across every holding is the anticipation of significant growth, at least a doubling of profits over the next five years. This is a demanding hurdle rate; history suggests less than a third of businesses in Emerging Markets achieve this. What underpins our optimism for China currently, however, is the diversity of this growth. We are remaining very open-minded as to where it might be found.

We remain excited by the digitalisation of many things, be it finance, healthcare, retail, logistics or entertainment. We are encouraged that new businesses and business models are challenging the established order, showing that network effects are important but not impregnable. This level of dynamism is healthy, both for investors and consumers and we are spending time, effort and research dollars on making sure we fully understand these evolutions and how they are shaping behaviours and consumption patterns. We hope to share the results of a jointly commissioned research project by the Edinburgh and Shanghai office into China’s Gen Z in the coming quarter.

By 2027, it is expected that the digital economy will account for about half of China’s GDP and become the main driver of the country’s economic growth. Building the new wave of technology infrastructure for the digital economy has become a top development priority for China, with an estimated $1.6trn investment into developing next generation infrastructure over the next five years, including the 5G network, cloud data centres, electric vehicle (EV) charging stations and artificial intelligence technologies.

With government support, a priority focus on boosting consumption and facilitating structural reforms, and an acknowledgement of the role of private companies in driving innovation, we expect this to throw up many exciting growth opportunities for a range of companies over the coming decade.

If digitisation is seen as a positive for societal and economic development over the next decade, then demographics is perhaps at the opposite end of the spectrum. China’s seventh census results were released during the quarter, highlighting a big increase in the proportion of the population over 60 and a possibly alarming decline in the birth rate. While at an aggregate level, this aging trend is expected to continue and often portrayed negatively, it also brings interesting opportunities for companies with a long-term vision. Our portfolio has a breadth of healthcare and insurance names that lead in this space.

An aging population will inevitably lead to a shrinking labour force. This has exerted significant pressure on traditional manufacturers whose growth is reliant on an army of compliant workers. However, this has also created opportunities for those who are forward thinking and have built a more efficient manufacturing process aided by technology. Midea, another holding in the portfolio, has tripled its revenue over the last decade without building one extra factory, while reducing workforce from 200,000 to 150,000 and returning 400 hectares of land to government. Furthermore, it has driven down both energy consumption and greenhouse gas emission per unit output value by five per cent per year since 2017. It is now reaping the benefits of a consistent investment in automation technology.

None of the above is predicated on a strident view on inflation, interest rates or the merits or otherwise of value investing. Instead, the portfolio reflects a singular view that the one factor that has delivered consistently for investors through a myriad of different market environments is profit growth. And this is exactly what we are focused on.

Performance

Given the already broad positioning of the portfolio for a diverse range of growth, it has been a period in which we’ve not made many changes to the individual positions. It is worth commenting though, on the operational progress for a number of portfolio holdings which have had the biggest influences on portfolio performance. As ever, we urge caution in drawing any conclusions whatsoever from short-term share price moves.

Li-Ning has also been a strong performer and has seen margin improvements and accelerated brand strength as it benefits from the ‘guochao’ trend (a preference for domestic brands over international ones). The company is likely to continue to strong earnings progression (a 34 per cent increase in 2020), not just from strong sales growth but also improving margins as its discounting is being reined back. Competition has been struggling, at least in the near term, following calls for a boycott of international brands avoiding Xinjiang cotton and other raw materials from the region in northwest China. Adidas and Nike have both seen sharp contractions in their sales through Tmall.

JD.com was among the recent performance detractors. There has been weakness in a number of Chinese ecommerce companies during 2021, perhaps due to growing concerns about regulatory interference. JD.com has spun off its logistics unit into a separate business, although JD.com remains the major shareholder. Operating results continue to be very strong at the company overall. Net Revenues have grown at a 33 per cent CAGR since 2015 and profitability is improving with scale. JD Retail operating margins are now four per cent as economies of scale benefit the first party commerce business over the long term and the business also sees fast growth from the advertising. Annual active customer accounts, a closely watched metric, jumped 29 per cent to 499.8 million at its latest results.

Also among the performance detractors was Kuaishou Technology, the short-form video streaming business. In the near term, it's clear that the shares have traded around the results cycle and whether the business beats analyst estimates or not. It was a top performer in the previous quarter. Our excitement comes at the longer-term outlook. In China, Kuaishou and ByteDance are the two biggest players in the domestic short video content market, which is forecast to be worth $30bn this year. One of the key reasons we like Kuaishou is that it has a very engaged user base. Around 25 per cent of their c 450 million domestic monthly active users (MAU) create content, which is higher than Douyin (of Bytedance) at 18 per cent. It is now the third most used app in China by daily time spent and in Q1 2021, users spent longer on this than on WeChat. It currently claims three per cent of mobile ad revenue in China (2020) and we believe this can increase significantly.

The views expressed reflect the personal opinion of the author and should not be considered as advice or a recommendation to buy, sell or hold a particular investment

Performance Objective

Long-term capital appreciation, outperform the Index after fees over rolling three year periods.

The performance objective stated is in no way guaranteed. The performance target is aspirational and is not used for the purpose of determining or constraining the composition of the portfolio. Performance may vary between segregated accounts and pooled funds in different jurisdictions as each structure will bear a different set of costs. A single performance target may not be appropriate for all vehicles in all jurisdictions and for this reason our portfolio specific materials will often refer to ‘material’ outperformance of a benchmark.

Periodic Performance

	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months*	7.9	4.7	3.2
YTD*	6.0	3.2	2.9
1 Year*	50.2	32.4	17.8
3 Years	22.0	13.3	8.7
5 Years	25.4	16.9	8.5
10 Years	13.2	9.0	4.2
15 Years	12.8	9.6	3.1
Since Inception	12.9	9.6	3.3

Annualised periods ended 30 June 2021. *Not annualised.
Inception date: 28 February 2006.
Figures may not sum due to rounding.
Benchmark is MSCI China All Shares (MSCI All China prior to 27 November 2019, MSCI Golden Dragon to 02 May 2019).
Source: StatPro, MSCI.
US dollars

Discrete Performance

	30/06/16-30/06/17	30/06/17-30/06/18	30/06/18-30/06/19	30/06/19-30/06/20	30/06/20-30/06/21
Composite Net (%)	44.2	18.6	-5.7	28.3	50.2
Benchmark (%)	30.9	14.8	-2.4	12.6	32.4

Benchmark is MSCI China All Shares (MSCI All China prior to 27 November 2019, MSCI Golden Dragon to 02 May 2019).
Source: StatPro, MSCI.
US dollars

Performance Objective

Long-term capital appreciation, outperform the Index after fees over rolling three year periods.

The performance objective stated is in no way guaranteed. The performance target is aspirational and is not used for the purpose of determining or constraining the composition of the portfolio. Performance may vary between segregated accounts and pooled funds in different jurisdictions as each structure will bear a different set of costs. A single performance target may not be appropriate for all vehicles in all jurisdictions and for this reason our portfolio specific materials will often refer to 'material' outperformance of a benchmark.

Periodic Performance

	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months*	7.0	3.8	3.2
YTD*	9.4	6.4	3.0
1 Year*	42.2	25.4	16.8
3 Years	21.4	12.7	8.6
5 Years	23.8	15.4	8.4
10 Years	15.5	11.2	4.3
15 Years	13.3	10.2	3.1
Since Inception	12.9	9.6	3.3

Annualised periods ended 30 June 2021. *Not annualised.
Inception date: 28 February 2006.
Figures may not sum due to rounding.
Benchmark is MSCI China All Shares (MSCI All China prior to 27 November 2019, MSCI Golden Dragon to 02 May 2019).
Source: StatPro, MSCI.
euro

Discrete Performance

	30/06/16-30/06/17	30/06/17-30/06/18	30/06/18-30/06/19	30/06/19-30/06/20	30/06/20-30/06/21
Composite Net (%)	40.5	15.8	-3.3	30.1	42.2
Benchmark (%)	27.5	12.2	0.1	14.1	25.4

Benchmark is MSCI China All Shares (MSCI All China prior to 27 November 2019, MSCI Golden Dragon to 02 May 2019).
Source: StatPro, MSCI.
euro

Performance Objective

Long-term capital appreciation, outperform the Index after fees over rolling three year periods.

The performance objective stated is in no way guaranteed. The performance target is aspirational and is not used for the purpose of determining or constraining the composition of the portfolio. Performance may vary between segregated accounts and pooled funds in different jurisdictions as each structure will bear a different set of costs. A single performance target may not be appropriate for all vehicles in all jurisdictions and for this reason our portfolio specific materials will often refer to 'material' outperformance of a benchmark.

Periodic Performance

	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months*	7.8	4.6	3.2
YTD*	4.9	2.1	2.8
1 Year*	34.3	18.4	15.9
3 Years	20.2	11.6	8.6
5 Years	24.6	16.2	8.4
10 Years	14.9	10.6	4.3
15 Years	15.0	11.8	3.2
Since Inception	14.7	11.3	3.4

Annualised periods ended 30 June 2021. *Not annualised.
Inception date: 28 February 2006.
Figures may not sum due to rounding.
Benchmark is MSCI China All Shares (MSCI All China prior to 27 November 2019, MSCI Golden Dragon to 02 May 2019).
Source: StatPro, MSCI.
sterling

Discrete Performance

	30/06/16-30/06/17	30/06/17-30/06/18	30/06/18-30/06/19	30/06/19-30/06/20	30/06/20-30/06/21
Composite Net (%)	48.4	16.6	-2.2	32.1	34.3
Benchmark (%)	34.7	13.0	1.3	16.0	18.4

Benchmark is MSCI China All Shares (MSCI All China prior to 27 November 2019, MSCI Golden Dragon to 02 May 2019).
Source: StatPro, MSCI.
sterling

Performance Objective

Long-term capital appreciation, outperform the Index after fees over rolling three year periods.

The performance objective stated is in no way guaranteed. The performance target is aspirational and is not used for the purpose of determining or constraining the composition of the portfolio. Performance may vary between segregated accounts and pooled funds in different jurisdictions as each structure will bear a different set of costs. A single performance target may not be appropriate for all vehicles in all jurisdictions and for this reason our portfolio specific materials will often refer to 'material' outperformance of a benchmark.

Periodic Performance

	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months*	6.3	3.2	3.2
YTD*	3.1	0.3	2.8
1 Year*	36.5	20.4	16.2
3 Years	19.6	11.1	8.5
5 Years	24.3	15.8	8.4
10 Years	16.1	11.7	4.3
15 Years	13.6	10.4	3.2
Since Inception	13.5	10.2	3.3

Annualised periods ended 30 June 2021. *Not annualised.
Inception date: 28 February 2006.
Figures may not sum due to rounding.
Benchmark is MSCI China All Shares (MSCI All China prior to 27 November 2019, MSCI Golden Dragon to 02 May 2019).
Source: StatPro, MSCI.
Canadian dollars

Discrete Performance

	30/06/16-30/06/17	30/06/17-30/06/18	30/06/18-30/06/19	30/06/19-30/06/20	30/06/20-30/06/21
Composite Net (%)	44.2	20.1	-6.3	33.7	36.5
Benchmark (%)	30.9	16.3	-3.0	17.3	20.4

Benchmark is MSCI China All Shares (MSCI All China prior to 27 November 2019, MSCI Golden Dragon to 02 May 2019).
Source: StatPro, MSCI.
Canadian dollars

Performance Objective

Long-term capital appreciation, outperform the Index after fees over rolling three year periods.

The performance objective stated is in no way guaranteed. The performance target is aspirational and is not used for the purpose of determining or constraining the composition of the portfolio. Performance may vary between segregated accounts and pooled funds in different jurisdictions as each structure will bear a different set of costs. A single performance target may not be appropriate for all vehicles in all jurisdictions and for this reason our portfolio specific materials will often refer to 'material' outperformance of a benchmark.

Periodic Performance

	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months*	9.5	6.3	3.3
YTD*	9.0	6.0	3.0
1 Year*	37.7	21.4	16.3
3 Years	21.4	12.7	8.6
5 Years	25.2	16.7	8.5
10 Years	17.3	12.9	4.4
15 Years	12.7	9.6	3.1
Since Inception	12.8	9.5	3.3

Annualised periods ended 30 June 2021. *Not annualised.
Inception date: 28 February 2006.
Figures may not sum due to rounding.
Benchmark is MSCI China All Shares (MSCI All China prior to 27 November 2019, MSCI Golden Dragon to 02 May 2019).
Source: StatPro, MSCI.
Australian dollars

Discrete Performance

	30/06/16-30/06/17	30/06/17-30/06/18	30/06/18-30/06/19	30/06/19-30/06/20	30/06/20-30/06/21
Composite Net (%)	40.0	23.1	-0.7	30.8	37.7
Benchmark (%)	27.1	19.2	2.8	14.7	21.4

Benchmark is MSCI China All Shares (MSCI All China prior to 27 November 2019, MSCI Golden Dragon to 02 May 2019).
Source: StatPro, MSCI.
Australian dollars

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to 30 June 2021

Asset Name	Contribution (%)
Li Ning	1.4
CATL	0.9
Topchoice Medical Investment	0.6
WuXi AppTec	0.5
Zai Lab	0.5
Guangzhou Kingmed	0.4
Estun Automation	0.4
Hangzhou Tigermed Consulting	0.3
Asymchem Laboratories	0.3
TAL Education Group	0.3
Kuaishou Technology	-0.6
Ping An Insurance	-0.6
Brilliance China Automotive	-0.4
Wuxi Biologics Cayman	-0.4
NIO	-0.3
JD.com	-0.2
Lufax	-0.2
Yatsen	-0.2
Midea	-0.2
Cosco Shipping	-0.2

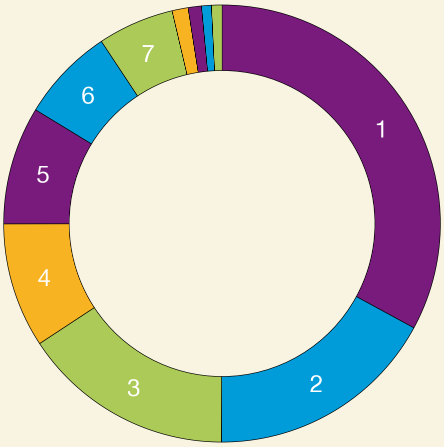
One Year to 30 June 2021

Asset Name	Contribution (%)
Li Ning	2.2
CATL	1.6
Bilibili	1.3
Zai Lab	0.9
Topchoice Medical Investment '	0.9
KE Holdings	0.9
Luzhou Laojiao	0.8
Guangzhou Kingmed	0.8
WuXi AppTec	0.8
Meituan	0.7
NIO	-0.9
Ping An Insurance	-0.9
Wuxi Biologics Cayman	-0.5
Brilliance China Automotive	-0.5
Berry Genomics	-0.5
iQIYI	-0.4
Yatsen	-0.4
Dada Nexus	-0.4
Baidu.com	-0.4
Yonyou	-0.4

Source: StatPro, MSCI. China composite relative to MSCI China All Shares. Some stocks may have only been held for part of the period.

Top Ten Largest Holdings

Stock Name	Description of Business	% of Portfolio
Alibaba	Online commerce	9.5
Tencent	Internet service portal	8.4
Meituan	Chinese online services platform	4.7
CATL	Battery manufacturer	3.6
JD.com	Largest online direct sales company in China	3.5
Ping An Insurance	Provides insurance services in China	3.4
Li Ning	Chinese sportswear	3.2
Kweichow Moutai	Spirits manufacturer	3.1
China Merchants Bank	Chinese bank	2.8
Bilibili	Chinese video sharing site	2.5
Total		44.7



Sector Weights

	Sector Weights	(%)
1	Consumer Discretionary	32.9
2	Health Care	17.1
3	Communication Services	15.7
4	Industrials	9.2
5	Financials	8.7
6	Consumer Staples	7.0
7	Information Technology	5.6
8	Materials	1.2
9	Utilities	1.0
10	Real Estate	0.7
11	Cash	0.8

Totals may not sum due to rounding

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	51	Companies	9	Companies	6
Resolutions	808	Resolutions	16	Resolutions	10

The growth investor's focus on potential, opportunity and growth are often lacking in environmental, social and governance (ESG) investing

Growth ESG investing should use bottom-up analysis to discover the ESG laggards with the potential to grow into champions

This is more so the case in Emerging Markets where the same potential for convergence that drives broader EM investing exists in the ESG space

Company Engagement

Engagement Type	Company
Environmental/Social	Alibaba Group Holding Limited
AGM or EGM Proposals	Berry Genomics Co.,Ltd, HUTCHMED (China) Limited, Haier Smart Home Co., Ltd.

Notes on company engagements highlighted in blue can be found in this report. Notes on other company engagements are available on request.

The Growth School of ESG: How spotting ESG improvers can help returns and society

Growth investing comes in many flavours but, at its heart, is a focus on potential. Instead of fixating on the past, or even the present, we imagine what a company can become. The focus is on upside and opportunity as we try to identify the leaders of tomorrow instead of simply crowning today's winners.

The Environmental Social and Governance (or ESG) investing of today is diametrically different. There is a fixation on the past and sussing out ESG flaws that risk returns. The guiding question is: What can go wrong? Once the boxes are ticked and the forms are filled, there is then a rush to crown companies that have already arrived. Potential, opportunity, growth. They are nowhere to be found.

So, what would Growth ESG investing look like? Instead of piling into the winners, it would focus on the ESG laggards with the potential to grow into champions. And to differentiate the stubbornly bad from the potentially good, it would rely on bottom up analysis to find hints of future change, instead of peddling summary statistics of historical data.

It turns out there are a whole host of benefits from bringing a growth mindset to ESG.

Firstly, it is good for returns. ESG funds have seen cumulative inflows of about $300bn since 2015 but most of the money is chasing ESG leaders. That space is getting crowded.

The real opportunity lies in finding companies that can grow their ESG profile. A 2015 MSCI study found that ESG improvers beat ESG leaders by 1.1 per cent on an annualised basis and outpaced the MSCI World Index by 2.2 per cent. Subsequent studies by AllianceBernstein and Rockefeller Capital Management have also found that focusing on ESG improvers can really pay off.

Growth ESG is also good for society. Celebrating ESG leaders is less useful than nudging along the firms that are early in their ESG journeys. As active investors we have the power to shape outcomes, instead of just tracking them.

This change in mindset is particularly important in Emerging Markets. There are more ESG laggards in emerging markets than in developed regions. The existing ESG model shunned EM, even though it needs the most capital. The images of broken healthcare systems that we saw during Covid should remind us how far capital can go there and how wrong it would be to pull out simply because we cannot tick a box.

© NurPhoto/Getty Images.

With Growth ESG, the glass is suddenly half-full. The same potential for convergence that drives broader EM investing exists in the ESG space too. Adopting this approach would allow capital to flow to areas that need it the most and where returns on capital can be higher.

Picking potential improvers in the large pool of ESG offenders is hard work. It can't be done by dredging summary statistics. Every company now knows it has to talk the ESG talk, so it takes bottom-up fundamental research sift progress from platitudes. Investors are used to judging the sincerity of commitments about investing for growth or eschewing mergers and acquisitions so we might have an edge here too.

Changing our mindset from the old ESG of crowning champions to the Growth ESG of picking and prodding improvers unlocks tremendous social and financial value. But it is only half the battle.

The metrics used for ESG investing are also broken. This is especially true when it comes to measuring the 'S' in ESG. ESG analysts have chosen narrow metrics like fair pay, human capital management and data security as proxies for 'Social' because they are easy to measure. But this misses the point. What really matters is whether companies leave societies *better off*.

I bring this up because if you define the metrics narrowly, they become easy to game. So, imagine an apparel maker that operates in Bangladesh where worker rights are a challenge. To 'grow' its ESG score the firm then moves the work to a highly automated plant in, say, Mexico. The risk from labour issues dwindle and so the ESG score goes up.

But I invite you to explain how this is progress to the children who are pulled out of school in Dhaka and Chittagong because their mothers' factory has been shuttered. The right thing to do would have been to engage with the company to improve standards *within a Bangladeshi context.* That is Actual Growth ESG.

So, both the mindset and metrics of ESG investing need to change if it is to generate sustainable returns and be a force for good. As the importance of ESG grows we have to debate carefully what it really means. Otherwise, there is a danger that the industry will coalesce around what is easy, instead of what is right.

Company	Engagement Report
Alibaba	A call with IR allowed us to discuss and better understand some of the company's strategies in cloud, grocery and logistics. We also covered Alibaba's continued commitment to being customer-focused and to developing services to support China's rural population. One of the objectives of this call was to encourage improvement in Alibaba's ESG reporting, which has been minimal since 2018. We were able to do this and offered our assistance going forward, receiving encouraging responses and commitments for comprehensive ESG reporting by next year. We also gained more insight into how sustainability is managed across the Group's vast businesses and hope to follow this up with further engagement this year.

Votes Cast in Favour

Company	Meeting Details	Resolution(s)	Voting Rationale
Proya Cosmetics 'A' - Stock Connect	AGM 13/05/21	19.1	We supported the election of an independent director who was nominated by the controlling shareholder.

Companies	Voting Rationale
AAC Technologies Holdings, Asymchem Laboratories 'A' - Stock Connect, BGI Genomics 'A' - Stock Connect, Beigene Ltd, Berry Genomics 'A' - Stock Connect, CATL 'A' - Stock Connect, China Merchants Bank 'H', China Molybdenum 'H', ENN Energy Holdings, Estun Automation 'A' - Stock Connect, Fuyao Glass Industry Grp 'H', Geely Automobile Holdings, Glodon 'A' - Stock Connect, Guangzhou Kingmed 'A' - Stock Connect, HUYA ADR, Haier Smart Home 'H', Hangzhou Tigermed Consulting 'A' - Stock Connect, Huayu Auto Systems 'A' - Stock Connect, Hutchison China Meditech, JD.com, Jiangsu Hengrui 'A' - Stock Connect, Kingdee Int'l Software Group, Kingsoft Corp Ltd, Kuaishou Technology, Kweichow Moutai 'A' - Stock Connect, Li Ning, Luzhou Laojiao 'A' - Stock Connect, Meituan, Midea Group 'A' - Stock Connect, Minth Group, NetEase.com ADR, Ping An Bank 'A' - Stock Connect, Ping An Healthcare & Tech, Pop Mart International Group L, Proya Cosmetics 'A' - Stock Connect, Robam Appliances 'A' - Stock Connect, Sanhua Intelligent Controls 'A' - Stock Connect, Shanghai International Airport 'A' - Stock Connect, Shenzhen Inovance 'A' - Stock Connect, Shenzhen Megmeet Electrical 'A' - Stock Connect, Shenzhou International Group Holdings, Sinocare 'A' - Stock Connect, Sunny Optical Technology, Tencent, Topchoice Medical Investment 'A' - Stock Connect, Weichai Power 'H', WuXi AppTec 'H', Yifeng Pharmacy Chain 'A' - Stock Connect, Yili 'A' - Stock Connect, Yonyou 'A' - Stock Connect, Zai Lab ADR	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
Glodon 'A' - Stock Connect	AGM 26/04/21	19	We opposed amendments to the administrative rules for securities and derivatives investment as the proposals were not in shareholders' best interests.
Haier Smart Home 'H'	AGM 25/06/21	21	We opposed the resolution to renew the financial services framework agreement as we believe the risk exposure is not in the interests of shareholders.
Huayu Auto Systems 'A' - Stock Connect	AGM 30/06/21	11, 13	We opposed two resolutions to amend the articles of association due to concerns with the authority to buyback shares without shareholder approval.
Huayu Auto Systems 'A' - Stock Connect	AGM 30/06/21	7	We opposed a resolution relating to related party transactions due to a lack of disclosure.
Jiangsu Hengrui 'A' - Stock Connect	AGM 11/05/21	6	We opposed the election of the auditors because the re-appointment will violate a Chinese regulation which specifies how long an audit partner can be retained by the Company.
Kingdee Int'l Software Group	AGM 21/05/21	4	We opposed the re-appointment of the auditors due to the continued high level of non-audit fees.

Company	Meeting Details	Resolution(s)	Voting Rationale
Kingdee Int'l Software Group	AGM 21/05/21	5.A, 5.C	We opposed two resolutions which sought authority to issue equity because the potential dilution levels are not in the interests of shareholders.
Luzhou Laojiao 'A' - Stock Connect	AGM 29/06/21	6	We opposed the appointment of the auditors due to concerns regarding the conduct of the signing audit partner.
Robam Appliances 'A' - Stock Connect	EGM 30/04/21	1, 2	We opposed two resolutions relating to an employee stock purchase plan due to lack of disclosure on the details of the plan.
Shenzhen Inovance 'A' - Stock Connect	AGM 24/05/21	7-9	We opposed three proposals relating to the Employee Stock Purchase Plan, because the directors who will design and supervise it are also eligible for participation in it, leading to potential conflicts of interest

Companies	Voting Rationale
WuXi AppTec 'H'	We opposed the resolution which sought authority to issue equity because the potential dilution levels are not in the interests of shareholders.

Votes Abstained

Company	Meeting Details	Resolution(s)	Voting Rationale
BGI Genomics 'A' - Stock Connect	EGM 16/06/21	1.1, 1.6	We abstained on the election of the non-independent chair and a non-independent director in order to focus cumulative votes on the executives and independent directors.
BGI Genomics 'A' - Stock Connect	EGM 16/06/21	3.1	We abstained on the election of a non-independent supervisor in order to focus cumulative votes on the independent supervisor.
Guangzhou Kingmed 'A' - Stock Connect	AGM 10/05/21	7, 8	We abstained on remuneration due to a lack of disclosure about the 2021 remuneration plan.
Hangzhou Tigermed Consulting 'A' - Stock Connect	AGM 21/05/21	6	We abstained on the election of the auditors because the Company did not disclose whether or not the audit partner would be rotated. Failure to rotate the audit partner after five years of service violates a Chinese regulation specifying how long an audit partner can be retained by the Company.
Robam Appliances 'A' - Stock Connect	AGM 19/05/21	4	We abstained on the financial budget report as it was not disclosed ahead of the voting deadline.
Shenzhen Inovance 'A' - Stock Connect	AGM 24/05/21	6	We abstained on the Financial Budget Report as it was not disclosed ahead of the voting deadline.
Weichai Power 'H'	EGM 21/05/21	12	We abstained on the approval of connected transactions due to a lack of disclosure.
Weichai Power 'H'	AGM 28/06/21	6	We abstained on the resolution to approve the financial budget due to a lack of disclosure.

Votes Withheld

We did not withhold on any resolutions during the period.

There were no new purchases during the period.

There were no complete sales during the period.

MSCI	Source: MSCI. The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information 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. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com)