



REGARDS FROM SHANGHAI

SCOTTISH MORTGAGE INVESTMENT TRUST PLC

James Anderson, Investment Manager. Fourth Quarter 2017

BAILLIE GIFFORD

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James graduated BA in History from Oxford University and after postgraduate study in Italy and Canada he gained an MA in International Affairs in 1982. He is a Trustee of the Johns Hopkins University. He joined Baillie Gifford in 1983 and became a Partner in 1987. He headed our European Equity team until 2003 when he co-founded our Long Term Global Growth strategy. He has Chaired the EAFE Alpha Portfolio Group since its inception in 2003 and has been the Manager and then Joint Manager of Scottish Mortgage Investment Trust since 2000. He has also served as a member of the Advisory Board of the government sponsored Kay Review and as Chair of the subsequent industry working group that set up the UK Investor Forum. James is a member of the Firm's Strategic Leadership Group.



REGARDS FROM SHANGHAI

BY JAMES ANDERSON

*I've seen the
future and it
probably works.*



I'm writing an hour after the privilege of a meeting with Jack Ma. The founder of Chinese internet giant Alibaba was in especially ebullient mood as he was preparing for the start of Singles Day – a company invented occasion that now attracts a TV audience twice the size of the US Super Bowl and dwarfs any other shopping day anywhere in the world be it online or traditional. Alibaba expects to process 360,000 transactions a second in the coming 24 hours. No other company in the world comes close to this scale.

Singles Day and Alibaba symbolise developments that are transforming our economic and social lives. The forces set in motion are highly likely to dominate our lives and financial markets. Alibaba's rise encapsulates the ascent and challenges of the power of technology, its scale signals the awesome power of a small number of giant corporations and its example is a harbinger of an age of Chinese progress and global leadership that is barely grasped in even the most ambitious forecasts.

Why does Alibaba promote Singles Day? It's great publicity for sure and probably helps boost the business overall. But that's not the point. As Mr Ma explained it's a stress test for the future. In about eight years' time Alibaba thinks it will be dealing with such volumes every normal day – around 10-12 times current average levels. The logistics systems need to learn how to cope. Alibaba's human and machine scientists need to see how such unparalleled data sets can be sorted and interpreted to further strengthen links to individual customers.



At present the US and China compete for global leadership in machine learning and artificial intelligence. But it's likely that in the next decade Chinese leadership will become firmly established. As Martin Lau of Tencent (the other Chinese technology giant to have added a mere \$200 billion of market value in 2017) puts it, scale is more of an advantage to China in a data age than it was in the manufacturing era. And in turn data is the most important factor of production in our new economy. From the delivery of food through to autonomous driving, this gives brilliant and blindingly ambitious

Chinese entrepreneurs a giant canvas to work on.

There follow wider and beneficial consequences. It's already clear that Alibaba, Tencent, Baidu and a host of their smaller and usually affiliated brethren are expanding progress in data into early explorations of the potential to improve healthcare and education after the paralysis of recent decades. In these contexts parallel efforts in China and America are more likely to be helpfully symbiotic than damagingly exclusive. That's great for us all. In healthcare the combination of data empowering personalised



Jack Ma, gestures while speaking during a Bloomberg Television interview at the company's headquarters in Hangzhou, China.

© Bloomberg/Getty Images.

medicine, and the collapse in the price and rise in performance of genomic sequencing, will permit far earlier and better diagnosis of health problems. Advances in gene therapy and synthetic biology ought to match cures with diagnosis for all their societal challenges.

But let's refocus on the specifics of Alibaba and the Chinese economy. Alibaba recently celebrated its 18th birthday. Revenue growth was 61% in the quarter to September 2017. As the company points out, China's per capita GDP has compounded at an annual rate of 14% over the last 18 years. This means that the average citizen is almost 10 times better off than when Alibaba was born. With its help, China now possesses the most advanced mobile internet technology in the world. China's physical infrastructure is also modern and often superb. Education levels are generally high. Social solidarity is strong.

So why would China stop growing? As I discussed with Jack Ma, shouldn't we instead be thinking that China has every chance of being as rich as America on a per capita basis? Although this will take time to come to fruition, if 7% annual growth continues for another decade then even

Anglo-American commentators might have to acknowledge a shifting world order. In any case pessimism about world growth would have proven rather exaggerated.

For markets it's only companies of the significance and scale of Alibaba, and tectonic shifts in perception such as China potentially becoming as rich as America on a per capita basis, that are worthy of attention. There's a persistent illusion that the normal is of relevance. It isn't. It matters not one iota to long-run market returns that British GDP turns out to be a decimal point or two higher or lower than expected. It's only of interest to traders, speculators and investment banks if quarterly earnings reports exceed or disappoint expectations. As recent academic research has confirmed, most stocks don't even outperform bonds over their lifetime. Just ignore the daily nonsense. Throw market forecasts in the nearest bin. Investment life is best lived in the exponential extremes. We're lucky to live in an era where companies and economies can grow to the sky.

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