BAILLIE GIFFORD CHINA GROWTH TRUST PLC

Roderick Snell and Sophie Earnshaw, co-managers of the China Growth Trust talk to Alex Blake, Investment Trusts Director, on why we're excited about China, why we believe Baillie Gifford is the right manager for the trust, and what our investment approach will look like.

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This film was produced and approved in September 2020 and has not been updated subsequently. It represents views held at the time of recording and may not reflect current thinking.

For a Key Information Document for the Baillie Gifford China Growth Trust, please visit our website at ***www.bailliegifford.com***

Alex Blake (AB): Hello, my name's Alex Blake. In September 2020, Baillie Gifford was appointed as investment manager of the Baillie Gifford China Growth Trust (formerly known as Witan Pacific Investment Trust). I'm joined today by Sophie Earnshaw and Roddy Snell who are co-managers of Baillie Gifford's open-ended China Fund, and will also co-manage the China Growth Trust. Welcome.

Roddy Snell (RS): Hi there.

Sophie Earnshaw (SE): Hi.

AB: The trust recently moved from an Asia Pacific mandate to focus on China. Roddy, why China?

RS: Well, as I'm sure most people would agree, China is the future of the region, and if you need any proof how seriously we believe this just look at Baillie Gifford and where we're investing; the only research office we've opened up outside of Edinburgh in the past 110 years, is Shanghai last year. It's where we see the future and are putting our firm's resources.

And to be blunt it's because the opportunity is huge; China's middle class is already the largest in the world, and its economy and stock market the world's second largest. And we are only at the beginning of the China story.

And perhaps more importantly the opportunities on the ground are compelling. Our experience is that China is one of the most inefficient markets in Asia. It's very retail driven and incredibly short term - holding periods can often be less than 50 days! And that would give an investment trust, with our 5-10 year holding period, a truly differentiated edge.

It’s also full of many of the world’s most innovative companies which really suits our growth style. If you have teenage children you’ve probably heard of TikTok, the world’s most popular video app for teenagers with almost a billion users globally.

Recently I was talking to one of our holdings, Ping An Good Doctor, an online GP service. What’s amazing is with the use of AI, a single Ping An Good Doctor can review 500 patients a day online, with double the accuracy of a physical doctor.

And finally, investments into China are hugely under-represented, and as the market opens up, investors will increasingly allocate directly into China.

You only need to look at the numbers to see the opportunity. Globally China is 18 per cent of global market cap, 30 per cent of listed stocks, but only 2.5 per cent of global funds allocations. And if you look at it at a regional level we believe the days of current Asian indices are numbered. China is already too big and has outgrown its place.

It accounts for more than 40 per cent of the popular Asia ex Japan index for instance, and we expect that to rise to 50, 60, 70 per cent plus in the coming years. So investors increasingly won’t be looking at Asia Pacific or Asia ex Japan. They will be looking to invest in China ex Asia.

So to summarise ‘Why China?’, China is the future of region. There is increasing demand to invest directly into the country, and that provides an exciting opportunity, amid limited competition, to position the fund as the pre-eminent long-term China Growth Trust to service this rapidly growing investor base.

AB: Why should an investor consider Baillie Gifford for China?

RS: Our China strategy, launched in 2006, has an impressive track record and clearly shows you our strength in China. Our open-ended China Fund is top quartile over 1,3,5, 10 years and since inception. And we have a lot of resources. Sophie and I both work in our very experienced emerging markets team, which has been managing money, lots of it, in China, since 1994, and has eight full time investors that will be supporting the fund.

But it’s not just our EM team you would be getting. You’re also getting all of Baillie Gifford’s investment resource, and that is substantial. Throughout Baillie Gifford we have over £40 billion invested in Chinese equities, and around 70 of [our] global investors looking at Chinese companies throughout the year.

Finally, we have a really strong reputation in China, which combined with our size and long-term nature, means we have very strong relationships with companies in the country.

For instance, we’re often sought to be earlier investors in the best unlisted Chinese companies. We were among some of the first investors into top-performing stocks such as Alibaba and more recently Meituan, which have added a lot of value for our clients.

So why Baillie Gifford? Because we have a very strong China franchise that we could put behind a China trust. We have the best performing UK China fund of the past five years, and it is backed up by industry leading China resources across the firm.

AB: Thank you. Sophie, who will manage the trust?

SE: Roddy and myself would be the key decision makers. We'll be supported by the Emerging Markets Team and by our on the ground research presence in Shanghai. Indeed, we sit down with two of our investment managers in Shanghai on a weekly basis to discuss current areas of work and top China ideas.

Out with Emerging Markets and Shanghai, over half the investment floor at Baillie Gifford research Chinese equities as part of their respective mandates and they regularly feed Chinese ideas into the portfolio. So Meituan, one of the newest additions to the open-ended fund, came from a partner on Baillie Gifford's International Growth Strategy.

In addition, as I'm sure you're aware, one of the challenges of investing in China is finding good quality and differentiated sources of information. Unlike a lot of our peers, we don't rely on investment banks to provide input. Instead, we've spent the last decade cultivating relationships with independent research providers and academics out with the financial services industry.

So, in summary, Roddy and myself will be the key decision makers on the trust and we'll be supported by Baillie Gifford's substantial China and global resources.

AB: It certainly sounds like you have a lot of resources at your disposal. What's your philosophy?

SE: Our philosophy is actually very simple: its long term, active and growth. So taking each in turn. We're genuinely long term. As Roddy mentioned, our investment horizon is five to 10 years, in a region where the average holding period is only a couple of months. This is a massive differentiator. Our incentivisation is also staunchly long term. We're remunerated based on five-year rolling investment performance – again, something that's almost unique in the region.

We're active so we look for companies that can substantially outperform the market and we hold them in size. We're willing to be very different from the benchmark and this willingness to be different has been a large driver of performance.

And finally, we're growth. To be frank, if you're not looking for growth companies in China, you're missing the point. China has some of the most exciting and transformational growth companies in the world and our philosophy is centred on finding them.

For example, Jiangsu Hengrui, a drug company that we bought for the OEIC [open-ended investment company] in 2016, so it's seen its top and bottom line more than double in the last three years, and its share price triple. But we think the good times for this company are only just beginning. It's a major beneficiary of the government's push to create a life sciences industry that could one day challenge the US.

AB: Thank you. And as we've heard, Baillie Gifford also manages an open-ended China fund. How will the trust differ from this?

SE: In three ways. First, we'll be able to invest in companies that are lower down the market cap spectrum and at earlier stages of growth. We've added four names to the trust portfolio that we can't own for the OEIC due to liquidity reasons. These include Hua Medicine, a company with a potentially game-changing diabetes drug and Estun, a domestic leader in robotics.

Second, we're excited to be able to invest in unlisted Chinese companies in the trust. So when we launched the OEIC, not being able to invest in unlisted [companies] wasn't an issue. Now it is. An increasing number of Chinese companies are putting off listing until much later in their development or they're not listing at all. With the trust, we'll be able to take advantage of this growing opportunity set.

And then third, gearing. China is arguably the biggest investment opportunity of our generation and we're keen to use gearing to maximise the potential returns from this opportunity.

AB: So to summarise, the Baillie Gifford China Growth Trust will have a long-term investment horizon, a strong growth bias, and will be differentiated from both the market and the Baillie Gifford China Fund through the potential to invest in unlisted companies, smaller companies, and to utilise gearing.

Sophie and Roddy, thank you very much for joining us.

RS: Thanks Alex. Bye.

SE: Thanks. Bye bye.

For more information, please visit bailliegifford.com or reach out to your contact.

Annual Past Performance to 30 June Each Year (%)

	2016	2017	2018	2019	2020
Baillie Gifford China Fund	3.1	50.1	16.6	-1.9	32.7
MSCI China All Shares Index*	-2.2	34.7	13.0	1.3	16.0
MSCI China All Shares Index +2%**	-0.2	37.4	15.2	3.3	18.3
Investment Association China/Greater China Sector	-6.9	34.8	17.3	-1.7	18.7

Source: StatPro, FE, MSCI, IA. Sterling. Returns reflect the annual charges but exclude any initial charge paid.
*(MSCI Golden Dragon Index to 02/05/2019, MSCI All China Index to 27/11/19 thereafter MSCI China All Shares Index).
**(MSCI Golden Dragon Index to 02/05/2019, MSCI All China Index to 27/11/19 thereafter MSCI China All Shares Index) +2%.

The managers believe the MSCI China All Shares Index + 2% is an appropriate benchmark given the investment policy of the funds 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/Great China Sector.

Past performance is not a guide to future results.

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The trust's risk could be increased by its investment in unlisted investments. These assets may be more difficult to buy or sell, so changes in their prices may be greater.

The trust invests in emerging markets where difficulties in dealing, settlement and custody could arise, resulting in a negative impact on the value of your investment.

The trust can borrow money to make further investments (sometimes known as "gearing" or "leverage"). The risk is that when this money is repaid by the trust, the value of the investments may not be enough to cover the borrowing and interest costs, and the trust will make a loss. If the Trust's investments fall in value, any invested borrowings will increase the amount of this loss.

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