

# BAILLIE GIFFORD CHINA FUND - GBP

INVESTMENT RESEARCH NOTE  
MARCH 2024

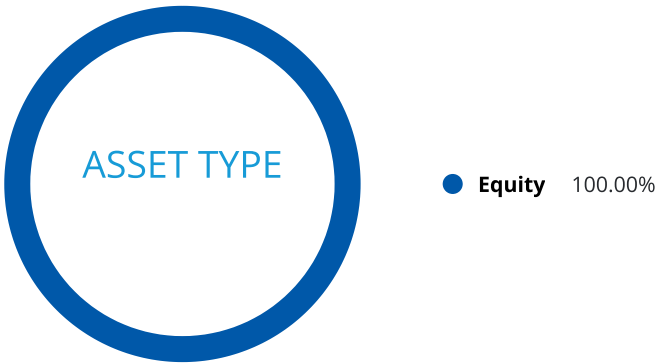
Risk warning: The past is not necessarily a guide to future performance. The value of your investment and the income from it can fall as well as rise and is not guaranteed. You may not get back the full amount invested. Our views are based upon our understanding of current legislation in England. Levels and bases of, and reliefs from, taxation are subject to change and their value to you will depend upon your personal circumstances. You should not act on any of the information without seeking professional advice. clarity Ltd is authorised and regulated by the Financial Conduct Authority (FCA).

SUMMARY

Baillie Gifford is an independently owned investment partnership, based in Edinburgh, with a strong reputation as a long-term growth investor. The firm is into the sixth generation of the private partnership and has seen wholly organic growth since 1908. Staff tenure is characterised by longevity and low turnover.

The Baillie Gifford China Fund was launched in 2006, building on the reputation of the Emerging Markets Fund, which was launched in 1994. The AUM was £460m as of December 2022 and is part of a large pool of assets invested in Chinese equities by the firm. The fund is managed by 5 individuals, 3 based in Edinburgh, plus 2 analysts based out of the dedicated Shanghai office, which was set up in November 2019. The named managers are Mike Gush, Roderick Snell and Sophie Earnshaw, who have all spent their entire investment careers at Baillie Gifford.

The fund is benchmarked against the MSCI China All Shares Index and invests in both Chinese H & A shares and would typically hold between 50-60 stocks, with over 80% in large caps and would expect to have an active share of around 75%. Turnover would normally be around 30% to 40%, but spiked in 2019/20 due to changes in the benchmark. whilst the long-term volatility is below the benchmark, volatility has been significantly above that in recent periods. There is no hedging of currency risk. ESG plays a limited part of the fund process, despite the wider Baillie Gifford approach to ESG.



INVESTMENT PROCESS

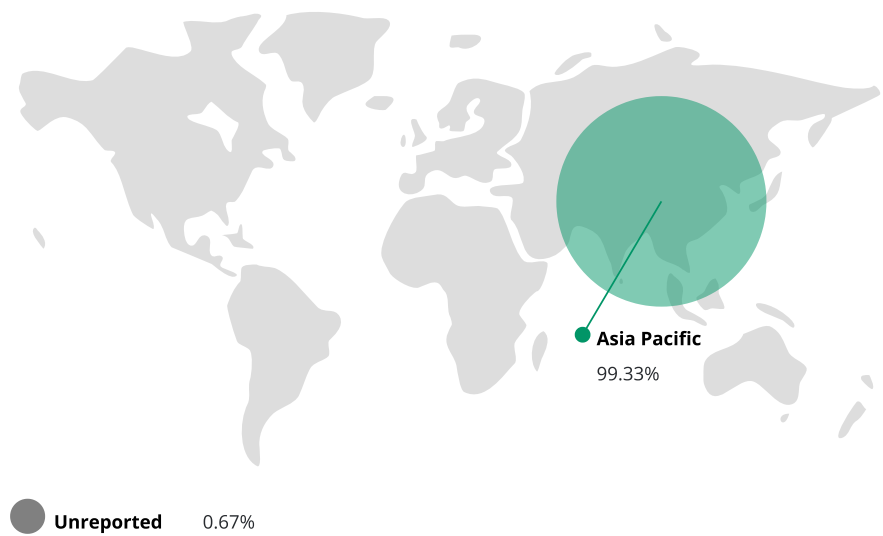
The fund has a long term investment time horizon, which is backed up by a remuneration process heavily focused on 5 year rolling returns. The hurdle rate to get onto the portfolio is quite steep - investments are expected to be able to double in 5 years. The investment approach is very analytical and the investment in support resource by the company, frees up the team to spend 80% of their time on analytical and portfolio work. Ideas are generated organically and laterally, rather than a quantitative driven shifting of names.

Three key points of difference would be; the use of tie-ups with universities and outsourced industry specialists to add further to their research input.(eg Fathom Consulting); the extensive use of early stage pre-IPO investments (they held Alibaba pre 2012) as a source of further market intelligence and a dedicated in-house healthcare innovation analytical team. Corporate access is also key and Baillie Gifford are able to leverage on the size of their Chinese and Emerging Market investment as well as a strong reputation as long term investors. The team are also able to access customers and competitors via the other regional investment teams and involves thousands of company contacts each year. Decisions are based around weekly in depth discussions and monthly decision making meetings. Key criteria that the team look for in potential investments are structural industry growth, competitive advantage, robust balance sheet and management competence. Holdings are frequently defined as leaders and challengers when allocating themes across the fund. Sell disciplines involve any change or erosion of these four factors, alongside excessive valuation or emergence of better ideas.

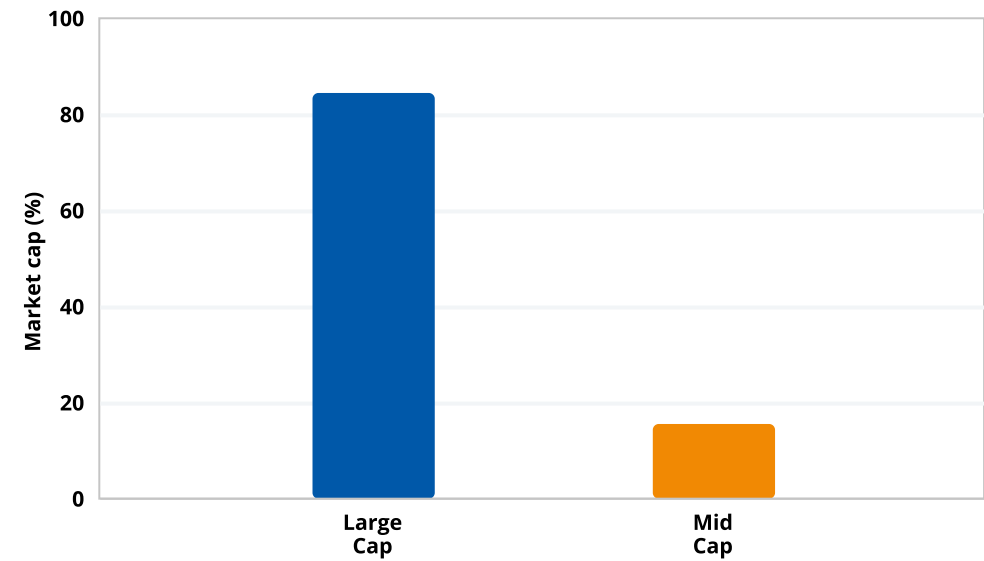
The strong growth bias and expectations for holdings to double in 5-years does lead to some long term sectoral biases, though the sector bets are not as large as one might expect. Long standing overweights would be Healthcare and Consumer Discretionary. A lot of the technology exposure is found here, rather than in the more hardware dominated Information Technology sector. What this produces is a portfolio with significantly higher earnings growth than the benchmark and that premium has increased over the last 5-years. The fund seeks the best Chinese companies irrespective of where they are listed. The fund invests in both A and H shares, the split typically being 1/3 A-Share and the majority of the rest of the fund in other China (or dual listed).

# AGGREGATED NET EXPOSURE

## REGIONAL EXPOSURE



## EQUITY MARKET CAP (%)



Not Applicable



Not Applicable

# OVERALL PERFORMANCE

● Baillie Gifford China Fund B Acc    ● MSCI China Index

## GROWTH (%) - OVER 1 YEAR

3 Apr 2023 - 29 Mar 2024



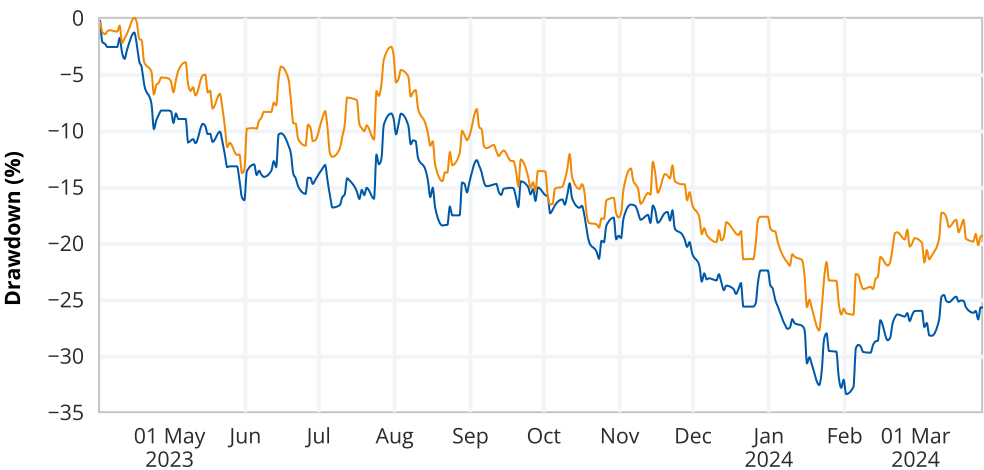
## GROWTH (%) - FROM INCEPTION

21 Nov 2008 - 29 Mar 2024



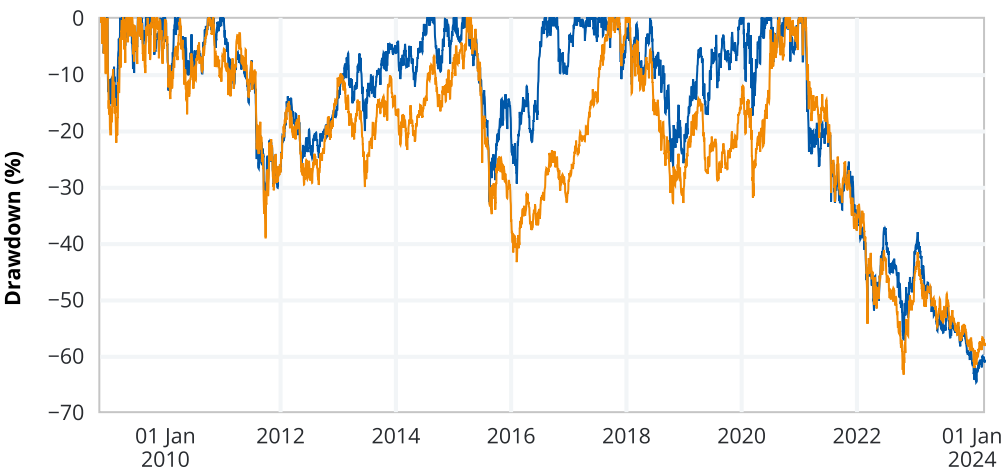
## DRAWDOWN (%) - OVER 1 YEAR

3 Apr 2023 - 29 Mar 2024



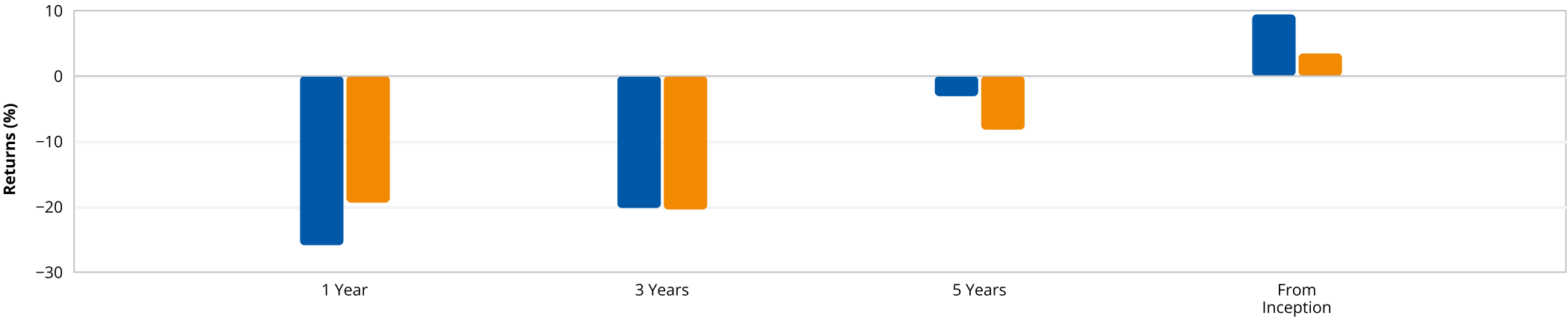
## DRAWDOWN (%) - FROM INCEPTION

21 Nov 2008 - 29 Mar 2024



# RETURNS

● Baillie Gifford China Fund B Acc    ● MSCI China Index



## MONTHLY BREAKDOWN AND YEARLY TOTALS (%)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YEAR
2024	-13.42	9.60	0.92										-4.23
2023	9.67	-9.09	-1.30	-8.23	-8.40	1.85	6.88	-7.64	0.51	-5.41	-0.33	-3.14	-23.66
2022	-6.99	-2.18	-6.72	-3.22	0.29	14.45	-9.90	2.36	-11.31	-15.49	18.70	5.78	-18.17
2021	8.88	-4.28	-7.35	3.79	-1.56	5.81	-14.05	-2.30	-2.01	3.17	-1.02	-6.12	-17.68
2020	-4.28	3.30	-3.92	9.63	3.29	13.48	3.70	7.56	0.91	6.81	0.28	5.94	55.92
2019	6.48	4.69	4.37	4.21	-9.61	8.78	4.61	-2.46	-0.45	-0.27	1.56	5.65	29.59

Capped to 6 years.

## ANNUALISED ROLLING RETURNS (%)

	1 YEAR	3 YEAR	5 YEAR	INCEPTION
Baillie Gifford China Fund B Acc	-25.88	-20.19	-3.09	9.42
MSCI China Index	-19.37	-20.42	-8.21	3.45

## CUMULATIVE RETURNS (%)

	1 YEAR	3 YEAR	5 YEAR	INCEPTION
Baillie Gifford China Fund B Acc	-25.71	-48.99	-14.46	296.20
MSCI China Index	-19.24	-49.42	-34.75	67.90

● Baillie Gifford China Fund B Acc    ● MSCI China Index

PERFORMANCE - OVER 1 YEAR

3 Apr 2023 - 29 Mar 2024

	Baillie Gifford China Fund B Acc	MSCI China Index
RETURNS (%)	-25.88	-19.37
VOLATILITY (%)	21.01	22.60
ALPHA	-0.31 *	
BETA	0.84 *	1.00
CORRELATION	0.92 *	1.00
SHARPE RATIO	-1.40	-1.03
SORTINO RATIO	-1.98	-1.47
MAX DRAWDOWN (%)	-33.27	-27.74

\*Calculated over a 3 year period where history permits.

PERFORMANCE - FROM INCEPTION

21 Nov 2008 - 29 Mar 2024

	Baillie Gifford China Fund B Acc	MSCI China Index
RETURNS (%)	9.42	3.45
VOLATILITY (%)	22.80	24.02
ALPHA	0.52	
BETA	0.78	1.00
CORRELATION	0.86	1.00
SHARPE RATIO	0.36	0.10
SORTINO RATIO	0.53	0.15
MAX DRAWDOWN (%)	-64.69	-63.34

SIMPLE STRESS TEST DRAWDOWN (%)

3 Apr 2023 - 29 Mar 2024



Stress test notes

The chart shows the calculated drawdown over the last year. The Review Point is the fund intervention point. Any drawdown above this line indicates a typical drawdown in a normal market cycle. Should the drawdown hit the review point, then this indicates that market conditions may be abnormal. This is the point that we would consider taking immediate action for an extreme market event.

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