Ready to roar

BGCG provides access to China's attractive long-term trends.

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Amid the continuing tensions between the world's largest economies, you might be surprised to learn that since the start of 2024, China has been one of the best-performing major stock markets globally.

The MSCI China index is up c. 31.5% in pound sterling terms during that period, behind only Germany's c. 36% and well ahead of both the UK and USA, which have each returned c. 20%.

Despite this, MSCI China is still c. 34% below its most recent record high, hit on 15/02/2021. The reversal stemmed from an unexpected regulatory crackdown on high-growth sectors such as internet platforms and gaming and was compounded by a crisis in the highly indebted property market. A tariff trade war with the US has hardly helped sentiment.

Fig.1: China Has Rebounded

Source: FE fundinfo
Past performance is not a reliable indicator of future results

However, not only do most of the structural forces driving China's pre-2021 stock market boom remain in place, they have been further entrenched, in our view. Today, you're getting access to these powerful themes at bargain basement prices, with the MSCI China trading on a forward price-to-earnings (PE) ratio of 11× to 30/05/2025, a big discount to the MSCI All-Country World Index, which is on a forward PE of c. 18×. The forward PE is a valuation metric that compares estimated future earnings for all companies in the index to their prices and is calculated by dividing the current price level of the index by the estimated earnings per share of its constituents for the next 12 months.

China overtook the US as the world's manufacturing hub in 2010, and has only cemented this dominance since. Its share of the global manufacturing output stood at 28.9% in 2023, according to the United Nations, well ahead of the US's 17.2% in second place.

In addition, China remains at the forefront of technological innovation, with its large population helping bring down the cost of these innovations through economies of scale. These include AI disruptors such as DeepSeek, consumer-facing super apps from the likes of Meituan and electric vehicle manufacturing, which was famously highlighted when BYD surpassed Tesla to become the world's best-selling electric vehicle maker in 2024.

Domestic consumers' preferences are also evolving. Luckin Coffee has built an effective data-driven operational model and overtook Starbucks to become the largest coffee chain brand in China in 2023, just six years after being founded. Consumer brands that could really understand the evolving tastes of China's younger generation and engage with them in a locally and culturally relevant way stand the best chance of winning.
Arguably, the days of getting all your China exposure from a global equity fund investing in western companies who do business with China is coming to an end. It might be a while until China can conceive of a brand with the luxury of a Ferrari or Hermes, but Western alcohol conglomerates, cosmetics brands, apparel sellers, coffee shops and even Disney are coming under pressure from homegrown offerings.

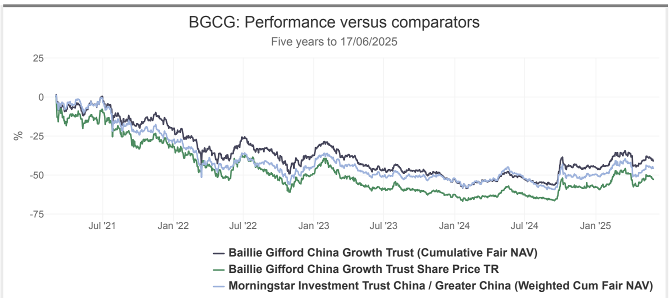
In addition, the domestic consumption story continues unabated. The catalyst for the current bull market in China has been the stimulus measures unleashed by the Chinese government and central bank back in September that targeted consumer spending.

Chinese consumers still have excess savings from their prolonged pandemic lockdowns at their disposal, which should help to boost sales for the aforementioned brand companies, among others.

We see **Baillie Gifford China Growth (BGCG)** standing out as a way of playing China's domestic recovery while guarding against tariff-related risks.

BGCG provides high-quality, high-conviction exposure to the high growth of the Chinese market. Its portfolio is anchored in domestically oriented companies aligned with the long-term trends and policy priorities outlined above. More than 80% of BGCG's underlying portfolio revenues are generated domestically, making it less directly exposed to global trade frictions .

Fig.2: Five-Year Performance



Source: Morningstar

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Managers Sophie Earnshaw and Linda Lin are experienced investors who have spent many years analysing and investing in Chinese equities and they are backed up by a 10-strong dedicated China equities team, seven of which are based in Shanghai. They also benefit from Baillie Gifford's wider global resources, all of which gives them deep local insight and regular access to company management.

In the past year, the managers have capitalised on the widespread deratings we've seen by initiating and adding to positions in high-quality growth companies at attractive valuations. We believe that investors can learn from this approach.

The past decade has shown the power of sentiment within the AIC China/Greater China sector. In the five years to mid-February 2021, the MSCI China index produced total returns of c. 190%, but the average China-focused investment trust soared c. 350%.

One could argue that as China only accounts for c. 3.2% of the FTSE All-World index, a large weighting within portfolios isn't warranted. However, China accounts for c. 16.8% of world GDP and is home to more than one third of the world's fastest-growing companies. Being under-exposed to such a large and vibrant opportunity set is a risk, in our view.

We think that this, in addition to historically low valuations, make China hard to ignore.

Adding to the attractive valuations within China itself, a c. 10% discount offered on BGCG's high-quality, growth-biased portfolio provides a double-discount, potentially offering long-term, patient investors an attractive entry point to China's growth story.

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Past performance

Baillie Gifford China Growth Trust PLC - Annual Discrete Performance To 31 March

	2021	2022	2023	2024	2025
Share price (%)	53.0	-32.7	-12.8	-26.0	39.7
Net asset value (%)	42.3	-28.2	-4.7	-27.1	38.1
Index* (%)	27.3	-20.5	-0.2	-18.2	26.1
AIC China / Greater China* (%)	74.6	-35.0	-1.3	-27.1	31.2

Sources: Morningstar, MSCI. Total return in sterling.
**Changed from MSCI AC Asia ex Pacific Index to MSCI China All Shares Index on 16/09/20. Data chain-linked from this date to form a single comparative index.*
***Weighted Cum Fair NAV*
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