

# STRATEGY FILM SERIES – CHINA A SHARES

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Investment manager, Linda Lin, discusses the Baillie Gifford China A Shares Strategy and reflects on its philosophy and the exciting opportunities ahead.

Your capital is at risk.

**Linda Lin:** China is undergoing a remarkable transformation. From its origin as a copycat, lower-cost manufacturer, it has evolved into a unique hub of growth opportunities on an unmatched scale.

As a world leader in e-commerce, digital payments, 5G, and climate technologies, China looks set to deliver diverse opportunities that often cannot be found anywhere else in the world. In recent years, China has become a leader in electric vehicles, or EVs, accounting for nearly 60 per cent of the EVs sold globally in 2022 and home to six of the world's top 10 EV battery makers.

Many of the best companies in these areas are only found in the domestic A share markets, which most investors remain significantly underexposed to. Despite being the second biggest stock market in the world, global investor ownership stands at less than 5 per cent. And with a correlation of less than 0.5 with most other equity markets, China A is also a rare diversifier in an overall asset allocation.

At Baillie Gifford, we adopt a radically different approach to capture the opportunities hidden in the China domestic A-share market.

Our approach involves holding businesses for 5-10 years to capture the inefficiencies caused by short-term investor behaviour. We focus on identifying a select few exceptional growth businesses that have the potential to grow up to fivefold or more within our holding period. Our research process emphasises gaining broad perspectives beyond the traditional financial analysis, engaging with academia, industry thought leaders, founders, and private companies that share our long-term mindset. This enables us to deepen our understanding of the structural changes that will shape future winners.

One powerful change we're excited by is the continued growth of China's middle class, notably the changing habits of its nearly 300 million Generation Z consumers. Growing up more culturally confident than their older peers, these Gen Z consumers prefer domestic brands over international competitors. This spans areas from cosmetics to beverages to sportswear.



Those who fail to pay proper attention to the nuances of China's A-share market risk missing its vast potential. Our three decades of investing in China, and our long-term, active approach, have taught us to look past broad generalisations and focus on those companies benefiting from long-term secular trends with clear policy alignment. When we observe the scale and pace of change happening on the ground in China today, we cannot help but feel excited about the future.

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