

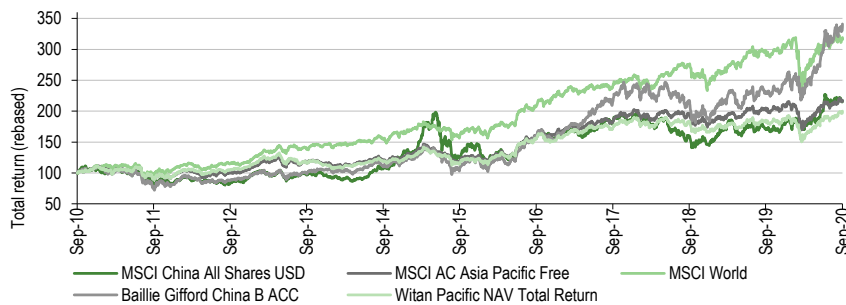
Baillie Gifford China Growth

Initiation of coverage

China – we are only at the beginning

The handover of Witan Pacific (WPC) to Baillie Gifford (BG) on 16 September 2020, following the board's decision and favourable shareholders' vote, marks the trust's transition to the new asset manager. BG won the mandate with its proposal to transform the Asia Pacific growth and income trust into a pure China equity growth strategy. The manager considers that 'still misunderstood and underinvested' China (a c 2.5% allocation in 2019 global portfolios) is the key global growth market of the 21st century, and that global investors who miss out on the present China opportunity run the major risk of being left behind.

BG China strategy significantly outperformed Witan Pacific over 10 years



Source: Refinitiv, Edison Investment Research as at 30 September 2020

Timely investment offering

The chart above illustrates the board's rationale to switch to a more focused China growth strategy with BG, which has demonstrated excellent absolute and relative performance compared with the previous Witan Pacific's 'mixed bag' diversified multi-manager approach to investing in Asia. BG believes that picking outperforming emerging markets' stocks heavily depends on the country and geographic market of their businesses, and China is currently their top country choice. With just two other pure China equity closed-ended peers currently on the UK market, BGCG is a timely growth equity strategy offering from BG.

Opportunities and risks for BGCG

- BG's ample team expertise of direct investing in China, going back to 1994.
- Very strong 12 years' strategy track record in absolute and relative terms.
- Underinvested China (c.2.5% allocation in global portfolios).
- The closed-ended structure – with the flexibility to gear and to own both public and private companies – potentially increases the strategy's total return.
- Growth investing goes out of favour.
- Private equity exposure (<20% portfolio).
- The fund is only suitable for long-term investors with high volatility tolerance.
- Investors are slow to allocate money to China or decide on alternatives instead.
- One or a few of macro-risks (eg trade wars, geopolitics, long post COVID-19 recovery) slows China's corporates' rapid growth and development.

Re-rated to trade at a premium

Following the announcement of BG taking over the trust on 22 July 2020, BGCG re-rated into positive territory and currently trades at a 4.8% premium to NAV.

Investment trusts China growth equities

15 October 2020

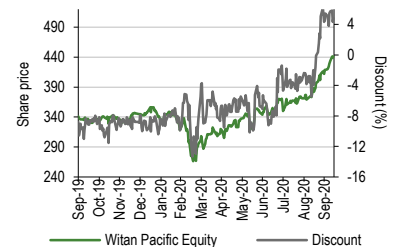
Price 441.0p
Market cap £194.9m
AUM £183.1m

NAV* 417.5p
 Premium to NAV 5.7%
 NAV** 420.7p
 Premium to NAV 4.8%

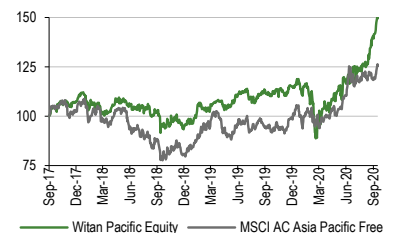
*Excluding income. **Including income. As at 13 October 2020.

Yield 1.6%
 Ordinary shares in issue 44.2m
 Code BCGG
 Primary exchange LSE
 AIC sector Country-specialist Asia Pacific ex-J
 Benchmark MSCI China All Shares Index

Share price/discount performance



Three-year performance vs index



52-week high/low 429.0p 266.0p
 NAV** high/low 408.9p 303.9p

**Including income.

Gearing

Net* nil

*As at 30 September 2020.

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Baillie Gifford China Growth Trust is a research client of Edison Investment Research Limited

Exhibit 1: Trust at a glance

Investment objective and fund background

From 16 September 2020, the investment objective is to produce long-term capital growth by investing predominantly in shares of Chinese companies. Performance is measured against the MSCI China All Shares Index. Previously the trust aimed for capital and income growth from a diversified portfolio of investments in the Asia Pacific region. Baillie Gifford took over management of the trust from Witan Investment Services on 16 September 2020.

Recent developments

- On 1 October 2020, 17.4m shares, being 26.4% of the issued share capital, were tendered.
- On 22 July 2020 the board announced the appointment of Baillie Gifford (BG) as an investment manager of the trust.
- On 11 February 2019 the board announced that it would put forward proposals to include a full cash exit at close to NAV for all shareholders.

Forthcoming

AGM	June 2021
Final results	April-May 2021
Year end	31 January

Capital structure

Ongoing charges	1.0% (FY20)
Net gearing	nil
Annual mgmt fee	Fee 0.75% on first £50m; 0.65% on next £200m; 0.55% thereafter

Fund details

Group	Baillie Gifford & Co
Manager	Sophie Earnshaw, Roderick Snell
Address	Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Phone	+44 (0)131 275 2000
Website	www.bailliegifford.com

Dividend paid	October 2020, June 2021
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Launch date	December 1907
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Continuation vote	No
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Performance fee	No
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Trust life	Indefinite
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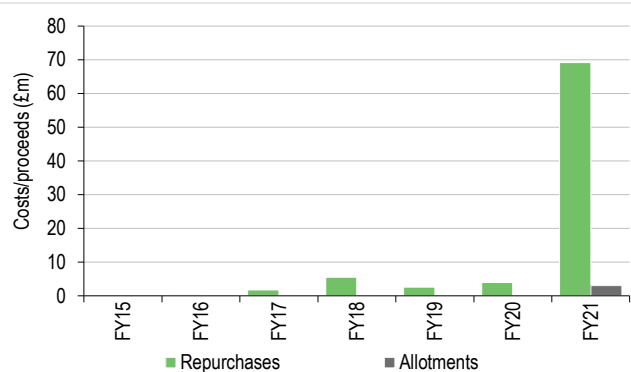
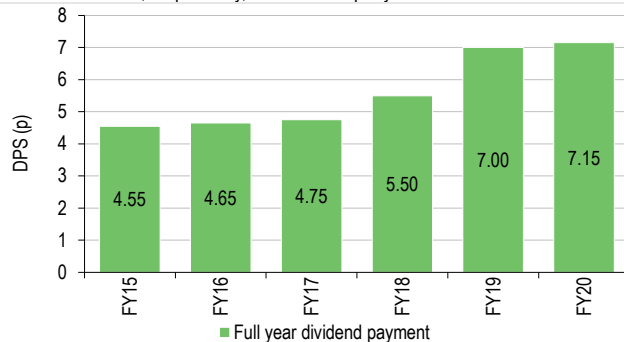
Loan facilities	None
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Dividend policy and history (financial years)

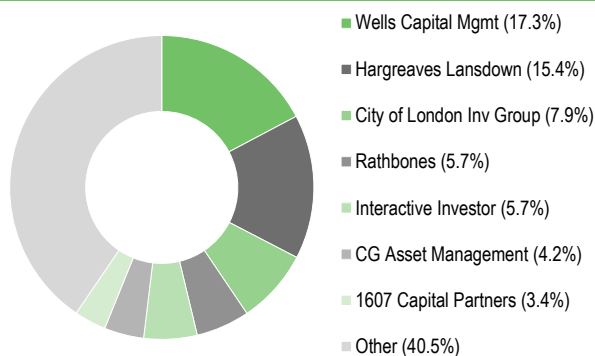
The board intends to continue to pay out dividends at 7.15p per share per annum in respect of FY21 (to 31 January 2021) and FY22. The dividend will be paid in October and June, respectively, from the company's revenue reserves.

Share buyback policy and history (financial years)

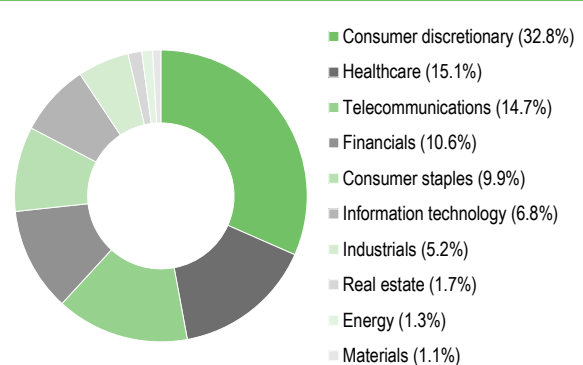
BGCG has the authority to repurchase up to 14.99% and allot up to 5% of the issued share capital. FY21 buy backs include shares tendered in September 2020.



Shareholder base (as at 30 September 2020)



Portfolio exposure by sector (as at 31 August 2020, based on BG OEIC)



Top 10 holdings (as at 31 August 2020)

Based on BG OEIC			Witan Pacific			
Company	Sector	%	Company	Country	Sector	%
Alibaba	Consumer discretionary	9.8	Taiwan Semiconductor	Taiwan	Information technology	3.8
Tencent	Communication services	9.4	Samsung Electronics	South Korea	Information technology	3.7
JD.com	Consumer discretionary	5.3	Tencent	China	Communication services	3.1
Meituan Dianping	Consumer discretionary	5.2	LG Chemical	South Korea	Materials	1.5
Ping An Insurance	Financials	5.2	Minth Group	Hong Kong	Consumer discretionary	1.5
Kweichow Moutai	Consumer staples	3.6	China Tourism Gr. Duty Fr.	China	Consumer discretionary	1.2
NetEase	Communication services	2.3	China Resources Land	China	Real estate	1.2
China Merchants Bank	Financials	2.2	Hoya	Japan	Healthcare	1.2
Guangzhou Kingmed Diagn. Gr.	Healthcare	2.1	Pharmaron Beijing	China	Healthcare	1.2
Foshan Haitian Flav. And Food	Consumer staples	2.0	Wuliangye Yibin	China	Consumer staples	1.2
Top 10 (% of portfolio)		47.1				19.6

Source: Baillie Gifford, Edison Investment Research

Fund profile: Mandate changed to China growth

The year 2020 was one of change for the trust. The board was disappointed with the long-term performance of Witan Pacific and initiated a review process, resulting in the change of manager and strategy.

Baillie Gifford & Co (BG) took over management of the trust from Witan Investment Services on 16 September 2020. The investment strategy was changed to China growth equity from Asia Pacific growth and income. The benchmark was changed to the MSCI China All Shares Index.

The trust (whose ticker is now BGCG) was launched in 1907 and is traded on the main market of the London Stock Exchange. In 2005, it adopted a multi-manager strategy – aiming to add value and diversify risk – appointed Witan Investment Services (WIS) as executive manager and traded with the ticker WPC until 16 September 2020.

Data from WPC show that from the inception of the multi-manager strategy on 31 May 2005 to 31 July 2019 (end-H120), WPC's annualised NAV and share price total returns of 9.3% and 9.5% respectively were almost in line with the benchmark MSCI AC Asia Pacific Free Index's total return of 9.2% pa (all in sterling).

The board is committed to future outperformance of the trust versus its benchmark, and on 11 February 2019 announced that if this was not achieved in the period from 1 February 2019 to 31 January 2021, it would put forward proposals likely to include a full cash exit close to NAV. On 22 July 2020 the board appointed BG, a 40% tender offer was announced, and on 1 October 17.4m shares (26.4% of the issued share capital) were tendered.

BG has agreed to make a significant marketing contribution to the re-launch of the trust and arrange all investor marketing activity during the first year of its management.

The fund manager: Baillie Gifford takes over

Manager and mandate change

Following a review of its investment management arrangements during 2019 and 2020, including a consideration of a full return of cash to shareholders, the board announced the appointment of Baillie Gifford (BG) as the investment manager of the trust on 22 July 2020.

BG took over management of the trust from Witan Investment Services on 16 September 2020, following the result of the shareholders' general meeting and the announcement of the tender offer (see the Capital structure and fees section below).

The fund's new name is Baillie Gifford China Growth Trust and the ticker is BGCG, changed from Witan Pacific and WPC, respectively.

The board decided to focus the trust solely on China, narrowing its mandate from Asia Pacific equities. The board believes that the focused China strategy is more attractive to shareholders. It expects direct investment into China to grow significantly from the currently very small proportion in global portfolios (c 2.5% at June 2019, source: BG, MSCI) and believes that the change of strategy will allow shareholders to capitalise on potentially vast investment opportunities in China.

Exhibit 2 below compares the trust's current and previous features.

Exhibit 2: Comparing the trust's current and previous features

Feature	Baillie Gifford China Growth	Witan Pacific (prior to 16 September 2020)
The manager	Baillie Gifford & Co	Witan Investment Services
The mandate	China – single country	Asia Pacific
The name	Baillie Gifford China Growth	Witan Pacific
Investment strategy	Growth (single stocks)	Growth & Income (multi-manager, since 2005)
Investment objective	To produce long-term capital growth by investing mainly in shares or depositary receipts of Chinese companies	To provide shareholders with equity exposure to the Asia Pacific region, including Japan, Australia and India
Benchmark	MSCI China All Shares Index	MSCI AC Asia Pacific Free
Portfolio composition	40–80 listed and unlisted securities	Multi-manager (four), over 200 holdings (at 31 January 2020)
Unlisted securities	Up to 20% of TA*	No
Single stock guidance	Concentrated, max up to 20% of the port. or b/m* weight +7.5%	Diversified, typically under 5%
Gearing	Max up to 25%, target up to 20% of GAV**	None

Source: Baillie Gifford, Edison Investment Research. *Notes: TA = total assets, GAV = gross asset value, b/m = benchmark.

Transition

The handover of Witan Pacific to BG on 16 September 2020 marks the trust's transition. The team has done a swift revamp of the portfolio, populating it with the targeted investments, and selling the previously held holdings. The restructuring was effectively complete by 30 September, at which date the portfolio comprised 61 Chinese stock holdings, with cash held to fund the tender offer. Following the tender, the portfolio is now fully invested.

BG has agreed to waive its investment management fee for the first six months following its appointment as a contribution to the costs that the trust will bear. In addition, the tender offer has been made at a 1% discount to NAV, so continuing shareholders will benefit from an uplift to NAV. Therefore, in aggregate, we do not expect the transition costs to be material.

The manager's view: The largest roaring Asian tiger

BG believes China to be one of the world's most important markets of the coming decades to provide investment opportunities. It also sees further growing direct investment into China. The managers believe that amid the COVID-19-triggered economic crisis, the world is at an inflection point from which China is likely to benefit in the years ahead. The team asserts that many Chinese companies will handle their businesses well coming out of the crisis, as the country has become an increasingly competitive global economic power.

The global economy is currently awash with liquidity, with c \$6tn of funds printed globally in 2020 quantitative easing programmes to revive economies. The BG team points out that China has not significantly expanded its balance sheet during the crisis, has sensible interest rates and decent growth, and therefore looks increasingly attractive for investors seeking an economic return. In contrast, developed markets' further leveraged balance sheets mean they are likely to keep zero to negative rates for many years and have very little growth. The Baillie Gifford China Growth portfolio, fairly equally split between 'leaders' and 'innovators', reflects the team's optimistic view about the exponentially expanding investment potential of China.

BG's experience of China is that it has one of the most inefficient equity markets in Asia, partly as a result of the significant role played by retail investors, who make up some 80% of domestic trading volumes. Such participants often exhibit a herd-like investment mentality, with holding periods measured in days not years. The managers believe that an active approach will serve them well, as exploiting such inefficiencies can give the trust a truly differentiated edge on a five- to 10-year investment time horizon.

Market outlook: China challenges global economies

China's proportion of the global stock market and global portfolio allocations is likely to grow. As at June 2019, China accounted for 18% of global market capitalisations in MSCI investable indices, 19% of global purchasing power by GDP and 31% of all global listed stocks in MSCI investable indices, yet on average only accounted for a 2.5% allocation in global portfolios. This creates ample opportunities for global investors to allocate capital to Chinese equities.

Exhibit 3 (performance) illustrates that while China's equity market performance was catching up with the world between 2015 and 2018, starting from 2019 it began to gain momentum and outperform. Exhibit 3 (valuation) showcases China as a more expensive market on a price/book basis, but the return on equity (ROE) of Chinese quoted businesses is far superior to global, Asian and Japanese companies.

Exhibit 3: Market performance and valuation

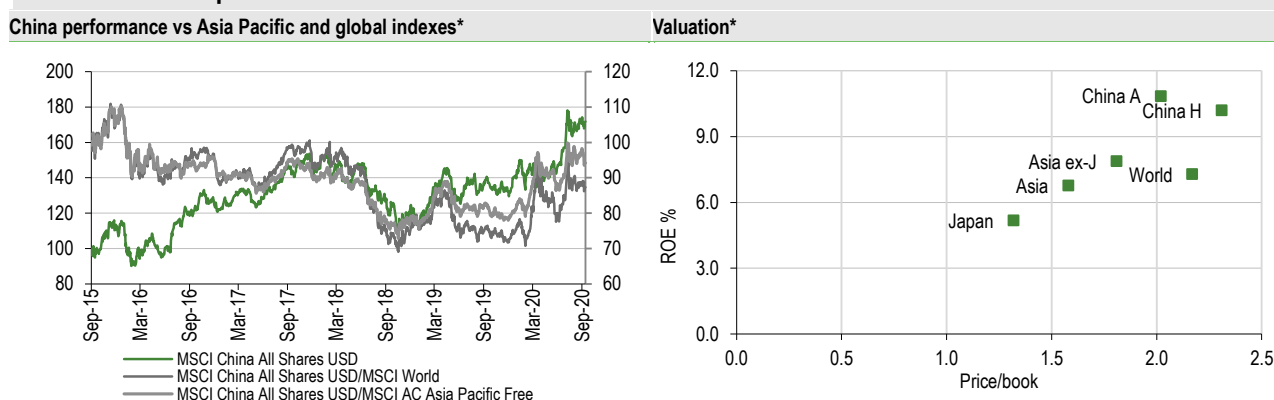


Exhibit 4 compares selected key valuation metrics for China and the world. While China's ROE is superior at 10.2x vs 7.3x, the China market is still less expensive on a P/E basis (14.2x versus 18.7x), potentially creating a valuation opportunity.

Exhibit 4: China versus global market valuation

	China*					World				
	Last	High	Low	10yr avg.	Last % of avg.	Last	High	Low	10yr avg.	Last % of avg.
P/E 12-month forward (x)	14.2	14.4	6.6	10.1	141.5	18.7	19.5	9.8	14	133.3
Price to book (x)	2.3	2.7	1.1	1.7	134.6	2.2	2.3	1.4	1.8	118.2
Dividend yield (%)	1.2	5.7	1.1	3.5	33.3	2.1	3.4	2	2.6	81.5
Return on equity (%)	10.2	17	10.2	14.1	72.3	7.3	13.2	7.3	11	65.9

Source: Refinitiv, Edison Investment Research, as at 30 September 2020. Note: *China H shares index is used as a proxy for China, Datastream indices used.

China was 'first in, first out' of the COVID-19-prompted crisis. The People's Bank of China has rolled out a number of stimulus measures since February, including cuts in lending rates, banks' reserve requirement ratios and targeted support such as cheap loans for virus-hit companies. The economy grew 3.2% in the second quarter, following a record 6.8% slump in the first three months of 2020. Manufacturing activity largely recovered throughout the summer, most offices in Shanghai are fully open and operational, face-to-face business meetings with companies and clients are back. Following its earlier package, China's central bank has put further monetary support on hold as it looks to avoid the side-effects caused by excessive stimulus, such as a surge in debt and risks of bubbles in the property market. It continues to keep conditions accommodative, leaving some space for policy decisions in the future.

China's unsurpassed economic success of the past 40 years has created compelling investment opportunities. The country's middle class has become the largest in the world, and its economy and

domestic stock market are the world's second largest. US-China competitive tensions tend to centre around technological developments and innovation, as China has proven its ability to deliver world-leading companies through investment, innovation and support. The shift between the 'old' and 'new' economy sectors continues, as rapidly growing e-commerce, online payments, renewable energy and healthcare industries begin dominating over more traditional stalwarts of the Chinese economy, such as construction and manufacturing.

China continues to face risks, however. These include trade tensions with the US, weak overseas demand, an increase in the volume of bad debts held by Chinese banks, poor disclosure on the corporate side and weak internal consumer demand for services. Globally, a lot of misconceptions about Chinese companies, and a strong bias against them, remain. Many investors still see China as a manufacturing economy with inferior corporate standards from an environmental, social and governance (ESG) perspective, and lacking technological innovation. The effective handling of the COVID-19 crisis by the Chinese has, arguably, accentuated a shift in this perception. More investors have begun eyeing China, as it is rapidly demonstrating its progress towards becoming an engine for global growth.

World economies are likely to be several quarters away from returning to pre-coronavirus levels, although they have gradually gained some ground in Q320. China is the only exception, and is anticipated to see a full rebound by the end of this year. In its October update the IMF forecasts 2020 China GDP to grow by 1.9%, while the world's is set to contract by 4.4%. These were revised from the June 2020 forecasts of 0.9% growth and 5.2% contraction, respectively. With multiple global political and economic uncertainties in Q420, such as the US presidential elections, Brexit and the overall handling of the current economic crisis, China looks to be in a stronger position than most of the developed economies, particularly in the West.

A number of pundits have discussed the potential shift in the global power balance towards China. A recent book by well-known British journalists John Micklethwait and Adrian Wooldridge, *The Wake-Up Call: Why the pandemic has exposed the weakness of the West – and how to fix it*, published in September 2020, supports the premise of China's rapidly advancing global prominence.

Asset allocation

Background for the trust: Strong China investment capability

BG has a strong track record of investing in China. The emerging markets team began buying Chinese equities in 1994 and the Baillie Gifford China fund (OEIC) has a close to 12-year history with top quartile performance over one, three, five and 10 years and since inception in November 2008. It has outperformed its comparator index (MSCI Golden Dragon Index to 2 May 2019, MSCI All China Index from 3 May to 27 November 2019 and MSCI China All Share Index thereafter) by 6.8% and the peer group by 7.2% pa over the past five years (source: BG at 30 June 2020). The firm has around £35.5bn invested in listed and unlisted Chinese companies and £44.6bn in Greater China (including Hong Kong and Taiwan) across all its funds (source: BG at 31 March 2020). BG is the largest manager of investment trust assets in the UK, with c£24bn total assets managed across 12 funds (source: the AIC, Association of Investment Companies at 30 September 2020).

Investment process: Over 80 BG team members involved

BGCG's investment objective is to produce long-term capital growth by investing predominantly in shares of, or depositary receipts representing the shares of, Chinese companies. One of the advantages of the open-ended China fund and this trust is BG's geographic investment flexibility. The team is agnostic of where companies are listed.

The investment team consists of the two fund managers, Sophie Earnshaw and Roderick Snell, supported by substantial BG resources. Earnshaw joined BG in 2010 and is an investment manager in the emerging markets equity team. She has been co-manager of the China Fund since 2014 and is also a decision-maker on the China A Share Fund. Snell joined BG in 2006 and is also an investment manager in the emerging markets equity team. He previously worked in the UK and European equity teams and has co-managed the Baillie Gifford Pacific Fund since 2010 and been deputy manager of Pacific Horizon investment trust since September 2013.

The emerging markets team, which currently comprises six investment managers and two analysts, was formed in 1994, when it began investing in China. Presently, about 70 investment professionals from global teams also assess investment opportunities in China and share their views internally. In addition, the managers tap into BG's Shanghai research platform (created in 2019), other BG teams and third-party specialist research. Rather than using broker research, the team prefers to engage industry and other specialist professionals, such as academics and journalists, who help to conduct independent corporate and legal due diligence.

The purpose of opening the Shanghai office in 2019 was to build BG's resource and investment platform, dedicated to direct Chinese investments. The office currently operates with five full-time investment analysts, including one BG partner, two experienced investment professionals and two more recent hires. All five transferred from Edinburgh. The team also engages two local interns covering healthcare (from Tsinghua university, Pharma department).

The investment process is collegiate. An idea can come from anywhere within the firm or external network, including companies and corporate contacts. The team targets for each investment to at least double within five years. The managers conduct weekly research meetings with their colleagues in Edinburgh and Shanghai, as well as monthly decision-making meetings. Earnshaw says big corporates in China see BG as business partners. Both sides mingle with the same network of industry experts. Earnshaw and Snell travel to China throughout the year, spending four to six weeks on the ground in total, and intend to return at the first opportunity once travel and lockdown restrictions are eased. The Shanghai office is back to full functioning and BG's locally based research team has resumed face-to-face meetings with Chinese company executives.

The team follows the five-factor fundamental analysis framework, presented in Exhibit 5, to assess each stock considered to enter the portfolio.

Exhibit 5: Baillie Gifford's Five Factor' Fundamental Analysis Framework

Opportunity	1. Industry Background 2. Competitive Advantage	A company's opportunity to deliver enhanced returns by assessing the industry or market, in which it operates, and whether the company possesses any clear and sustainable competitive advantages
Execution	3. Financial Growth 4. Management Attitudes	The ability of the company to capitalise on the opportunity identified above. The team analyse the financial structure of the company, in particular whether it can fund growth from internally generated cash flow. BG form judgements on management's strategy and follow leaders' actions closely, seeking tangible evidence that management run the business in shareholders' interests.
Valuation	5. Valuation: Is it in the price?	The team consider the market valuation of the company's shares to determine the extent to which others have already appreciated the strengths, identified by the BG's team.

Source: Baillie Gifford, Edison Investment Research

ESG has also been a core part of the investment process for the past 20–30 years. BG has a dedicated ESG team of 25 people, who perform daily functions, such as voting, administrative activities across the firm, and for the emerging markets team. The management team mitigates macro-risks by having close to 30 years' experience of investing in China, established industry connections, and performing ongoing rigorous ESG scrutiny of the corporates by the house team and third-party experts.

The BGCG portfolio consists of 40–80 listed and unlisted Chinese growth stocks of any size and in any sector.

Up to 20% of the total assets of the company can be invested in unlisted securities. The team typically invests in later stage, post-venture capital financing, companies. All unlisted research opportunities are displayed on the BG internal board, and any fund manager could explore investing into such companies. Gearing is permitted up to 25% of gross asset value, but the board targets it to be below 20%.

The sell discipline is embedded in the five-factor framework. The team exits a position when one of the five factors (industry background, competitive advantage, financial growth, management and valuation) changes to the detriment of the original investment case.

Risk is defined as a permanent loss of capital, rather than volatility of returns. Tracking error is an outcome, not a target, and ranges between c 2% and 8%. The team is broadly prepared to tolerate up to two years of underperformance from a stock. The investment managers are incentivised to outperform over the long term, as their remuneration is linked to five-year rolling performance.

BG claims to offer 'insurance against a world that's changing far more quickly than traditional risk models acknowledge.' The firm believes conventional risk models do not give a good indication of future risk, as they use backward-looking data. The team considers one of the key risks to future investment portfolios as failing to own the best Chinese companies, and therefore being left behind.

Risk monitoring is an ongoing process. On a quarterly basis BG's investment risk, analytics and research team generates tailored investment risk reports which analyse themes (concentration of risk), relative risk, portfolio construction characteristics, style biases, realised performance levels and behavioural biases, amongst others. The investment risk report is presented and discussed with the investment team with the aim of providing challenge and debate. In addition to this interaction, the investment risk, analytics and research team also meets on an ad hoc basis with the investment managers in order to discuss added value quantitative research on aspects such as screening tools, portfolio construction and scenario analysis.

BG's China investment trust and OEIC: Running alongside

BG typically runs each chosen strategy in both closed- and open-ended mandates. The manager applies the same strategy to both structures and they are mostly run by the same managers. BGCG was created as a closed-ended vehicle alongside the BG China OEIC run for nearly 12 years. The OEIC's three managers include both Earnshaw and Snell. We view an ability for investors to choose from the two structures as being one of the advantages of BG's investment offering. The differences between the closed- and open-ended funds are presented in Exhibit 6. The closed-ended version includes unquoted stocks (up to 20% of NAV), can apply gearing (of up to 20%) and has a different (tiered) fee structure.

Exhibit 6: BGCG versus BG China OEIC

	BGCG	China Fund
Structure	Investment trust	OEIC
Number of Holdings	40–80	50
Maximum Stock Position	Lower of 20% and index weight +7.5%*	10%
Gearing	0–20% range (25% maximum)	None
Unlisted	Up to 20%	None
Management fee	0.75% on first £50m of NAV; 0.65% on next £200m; 0.55% thereafter	0.72%

Source: Baillie Gifford, Edison Investment Research; as at 31 March 2020. Note: *At time of purchase.

There are a few smaller companies in BGCG that cannot be held in the OEIC for liquidity reasons. Also, there are slightly larger holding sizes in Alibaba and Tencent in the trust, as the regulatory framework for open-ended funds limits the maximum single company position size in the OEIC.

Current portfolio positioning

The portfolio had 61 holdings at 30 September 2020.

The team restructured the portfolio within about two weeks of taking over on 16 September. Exhibits 7 and 8 illustrate the transformation through sector and top 10 holdings differences between WPC and BGCG (based on BG China OEIC at 31 August 2020). BG highlights that the OEIC portfolio is currently a good representation of the BGCG portfolio. There were 58 common holdings and 67% overlap by total assets at 30 September 2020, prior to the tender; the overlap is likely to be higher now (mid-October) as the trust no longer has the large cash position needed to fund the tender. Whilst the managers expect to maintain a substantial crossover between BGCG and the OEIC, the funds are likely to diverge more over time as unlisted opportunities emerge.

Exhibits 7 and 8 highlight the changed sector mix, with BGCG's current top three sectors being consumer discretionary (32.8%), healthcare (15.1%) and telecommunications (14.7%), compared to consumer goods (23.0%), financials (17%) and industrials (16.0%) at Witan Pacific.

Exhibit 7: Portfolio (BGCG) breakdown by sector*

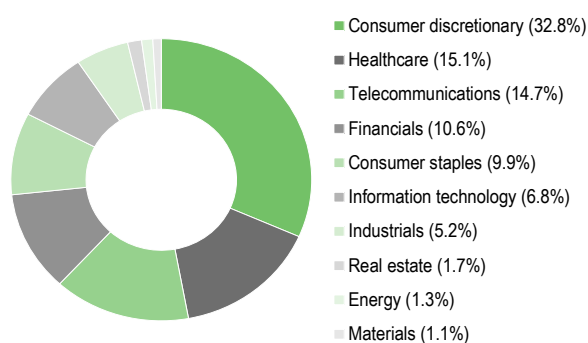
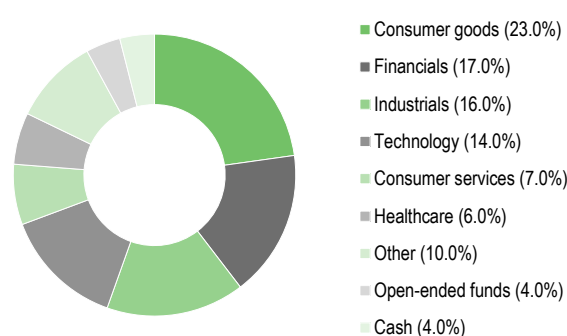


Exhibit 8: Portfolio (WPC) breakdown by sector



Source: Baillie Gifford, Edison Investment Research. Note: Data at 31 August 2020. *Based on BG China OEIC.

The portfolio also differs considerably from the index. Exhibit 9 illustrates the fund's largest overweights in healthcare and consumer discretionary of 7.8pp and 7.0pp, respectively, and the largest underweights in financials and materials of 5.6pp and 2.6pp, respectively. The team notes that both consumer discretionary and healthcare offer transformational growth opportunities. For example, the perception of brands is rapidly evolving, as 'Generation Z', who have grown up when China has been consistently strong, embraces local brands. While the older generation preferred global branded products, youngsters are trying domestic Chinese brands. Given the Chinese population's size, consumer focused businesses, where BG invest, have ample growth potential.

For example, the managers have invested in Li-Ning Company, which offers sporting goods, including footwear, apparel, equipment, and accessories for professional and leisure purposes primarily under the LI-NING brand, which is trendy in China. Li-Ning Company was incorporated in 2004, is headquartered in Beijing and has grown to offer a wide range of sports clothes and accessories to compete locally with the leading world brands, such as Adidas and Nike.

Exhibit 9: Portfolio sector exposure vs index* (% unless stated)**

	Portfolio** end-August 2020	Index weight end-August 2020	Active weight vs index (pp)	Trust weight/index weight (x)
Consumer discretionary	32.8	25.8	7.0	1.3
Healthcare	15.1	7.3	7.8	2.1
Telecommunications	14.7	15.0	(0.3)	1.0
Financials	10.6	20.0	(5.6)	0.7
Consumer staples	9.9	8.8	1.1	1.1
Information technology	6.8	8.4	(1.6)	0.8
Industrials	5.2	7.2	(1.9)	0.7
Real estate	1.7	7.2	(0.1)	0.9
Energy	1.3	1.9	(0.5)	0.7
Materials	1.1	3.7	(2.6)	0.3
Utilities	0.8	1.9	(1.1)	0.4
Total	100.0	100.0		

Source: Baillie Gifford, MSCI, Edison Investment Research. Note: *MSCI China All Share **BG China OEIC.

The top 10 holdings, changed by the BG managers during the transition and portfolio restructuring, are illustrated in Exhibit 10, with BGCG's exposures again represented by BG China OEIC. The portfolio has become much more concentrated, with the top 10 stocks representing 47.1%, compared to 19.6% of Witan Pacific (at 31 August 2020).

Exhibit 10: Top 10 holdings (as at 31 August 2020)

Based on BG OEIC			Witan Pacific			
Company	Sector	%	Company	Country	Sector	%
Alibaba	Consumer discretionary	9.8	Taiwan Semiconductor	Taiwan	Information technology	3.8
Tencent	Communication services	9.4	Samsung Electronics	South Korea	Information technology	3.7
JD.com	Consumer discretionary	5.3	Tencent	China	Communication services	3.1
Meituan Dianping	Consumer discretionary	5.2	LG Chemical	South Korea	Materials	1.5
Ping An Insurance	Financials	5.2	Mint Group	Hong Kong	Consumer discretionary	1.5
Kweichow Moutai	Consumer staples	3.6	China Tourism Gr. Duty Fr.	China	Consumer discretionary	1.2
NetEase	Communication services	2.3	China Resources Land	China	Real estate	1.2
China Merchants Bank	Financials	2.2	Hoya	Japan	Healthcare	1.2
Guangzhou Kingmed Diagn. Gr.	Healthcare	2.1	Pharmaron Beijing	China	Healthcare	1.2
Foshan Haitian Flav. And Food	Consumer staples	2	Wuliangye Yibin	China	Consumer staples	1.2
Top 10 (% of portfolio)		47.1				19.6

Source: Baillie Gifford, Edison Investment Research at 31 August 2020

While Alibaba (a Chinese Amazon, 9.8% of the portfolio at 31 August 2020), Tencent (the Shenzhen-based internet giant, 9.4%) and NetEase (the Chinese and international communications services giant, 2.3%) require little introduction, the team highlights a few points about the top 10 names. BG engages with Tencent, Alibaba and JD.com (5.3%) on governance, as it strives to bring these companies to internationally recognised standards. BG's team expects phenomenal growth from Beijing-headquartered Meituan Dianping (5.2%) – the world's biggest meal delivery business – as the pandemic further accelerates the trend toward online working and commerce.

The following portfolio examples illustrate the fund's growth strategy. Kingsoft (1.3% of BG's proposed portfolio for BGCG at 31 December 2019, source: BG) is a consumer-focused technology name in the portfolio, offering cloud infrastructure and operating a business model similar to that of Alibaba and Amazon, but domestic to China. It is currently the number three domestic player and the team sees it growing rapidly, to compete on a par with the current top two.

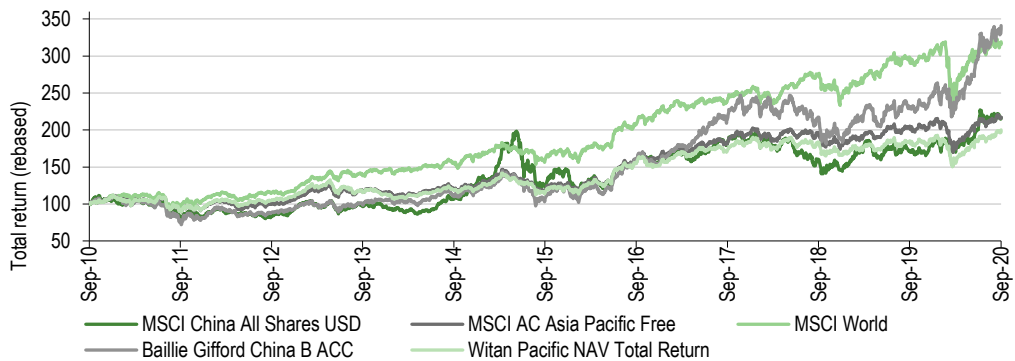
The managers view Geely Automobile (1.0%) as an excellent opportunity in the automotive sector and recently topped up this holding, having exited from SAIC Motor, which is perceived to be a weaker business. Ping An Healthcare and Technology (1.5%), known as Ping An Good Doctor, is an online healthcare platform in China, and BG sees exciting growth prospects for this business.

The active share of the OEIC stood at 74% (at 31 August 2020). The China funds are run against a more concentrated index (MSCI China All Shares) compared to global mandates and their comparative indexes. As a result, unlike with a larger global universe, a greater number of the index constituents are included in BG's China mandates. This puts the active share of the OEIC in the 70%s, compared with around 90% plus for most of BG's global mandates. The team expects BGCG's active share to be higher than that of the OEIC, as the trust includes unlisted holdings.

Performance: Outperforming strategy for c 12 years

BG's China growth strategy, being run for nearly 12 years, demonstrates excellent absolute and relative performance. Exhibit 11 illustrates its significant outperformance of Witan Pacific (the former Asia Pacific strategy) and both the MSCI AC Asia Pacific Free and MSCI China All Shares indices over 10 years.

Exhibit 11: BG China strategy significantly outperforms Witan Pacific over 10 years



Source: Refinitiv, Edison Investment Research as at 30 September 2020

Exhibit 13 shows that the BG China strategy has significantly outperformed Witan Pacific (on the NAV basis) over the long term in spite of underperformance in one discrete year of the last five (Exhibit 12). The strategy has also materially outperformed the China and Asia Pacific indices over the long term (exhibits 12 and 13). The discrete yearly performance underlines the relatively high volatility of returns of the strategy; the managers prefer to judge performance over five years or more.

Exhibit 12: Five-year discrete performance data

12 months ending	Share price* (%)	NAV* (%)	MSCI China All Share (\$)	MSCI AC Asia Pacific Free	MSCI World	Baillie Gifford China B ACC
30/09/16	35.4	34.0	24.5	35.3	30.6	49.5
30/09/17	11.1	11.0	16.5	14.6	15.0	33.9
30/09/18	2.0	7.1	-11.5	8.4	15.1	0.9
30/09/19	10.7	-0.1	6.4	3.1	8.4	4.5
30/09/20	19.0	7.2	26.7	6.3	5.8	46.0

Source: Refinitiv. Note: All % on a total return basis in pounds sterling. *Shows WPC performance until mandate change on 16 September 2020.

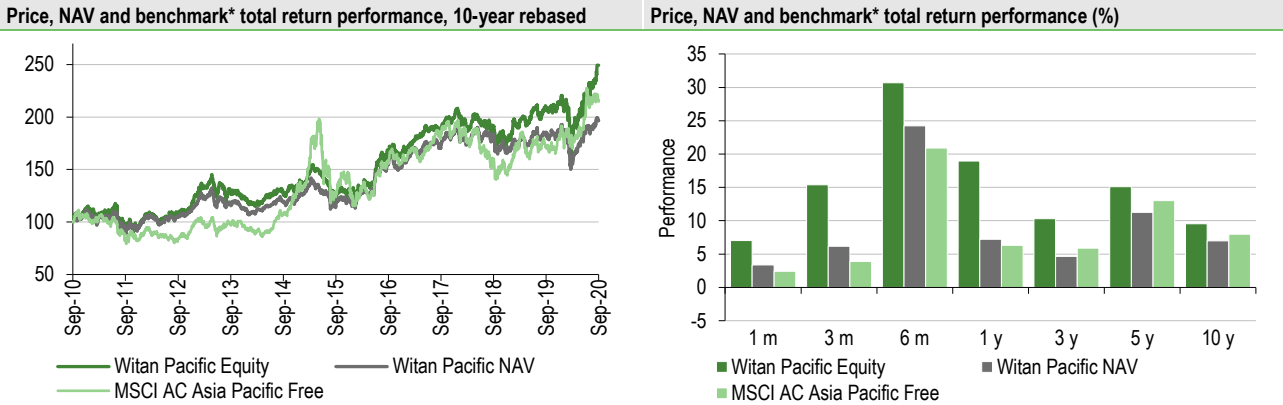
Exhibit 13: Share price and NAV total return performance*, relative to indices and BG China equity strategy (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to MSCI China All Shares	7.6	7.1	4.7	(6.1)	12.7	16.8	15.3
NAV relative to MSCI China All Shares	4.0	(1.5)	(0.5)	(15.4)	(3.9)	(1.4)	(9.0)
Price relative to MSCI AC Asia Pacific Free	4.5	11.1	8.1	11.9	13.1	9.7	15.5
NAV relative to MSCI AC Asia Pacific Free	1.0	2.2	2.8	0.8	(3.5)	(7.4)	(8.9)
Price relative to Baillie Gifford China B ACC	6.1	2.7	(9.3)	(18.5)	(12.7)	(34.4)	(21.2)
NAV relative to Baillie Gifford China B ACC	2.5	(5.5)	(13.8)	(26.6)	(25.5)	(44.7)	(37.8)

Source: Refinitiv, Edison Investment Research. Note: Data to end-September 2020. Geometric calculation. *Shows WPC performance until mandate change on 16 September 2020.

Exhibit 14 showcases that in emerging markets, where macro and country specific risks are much more pronounced than in more heavily regulated developed countries, broad geographic diversification might not pay off. The previous Witan Pacific's 'mixed bag', diversified multi-manager approach of investing in Asia resulted in the share price outperforming the benchmark, but performance was less impressive on the NAV basis. While Witan Pacific's NAV performance relative to its benchmark (MSCI AC Asia Pacific Free) improved over the past 12 months to end-September 2020, it underperformed over longer periods of three, five and 10 years.

Exhibit 14: Investment performance charts to 30 September 2020



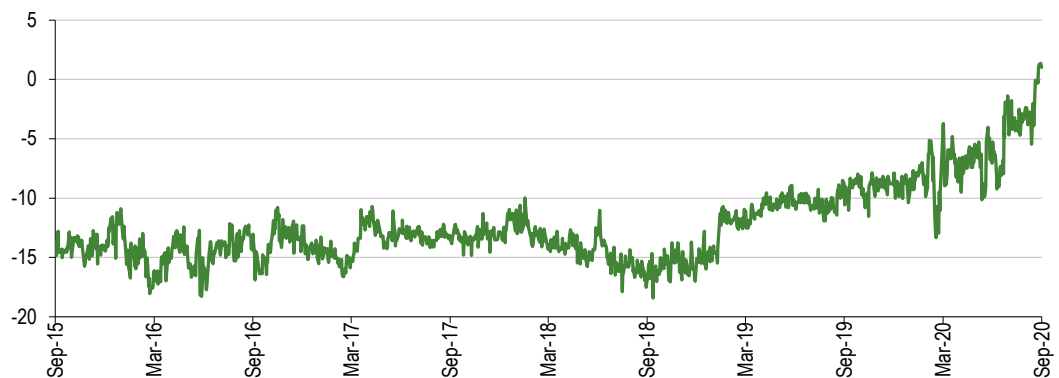
Source: Refinitiv, Edison Investment Research. Note: Three, five and 10-year performance figures annualised. *WPC's benchmark (MSCI AC Asia Pacific) is used to illustrate the trust's past performance, the benchmark changed to MSCI China All Shares on 16 September 2020.

Discount: Moved to trade at a premium

Following the announcement on 24 August 2020 that BG would take over the trust, BGCG's share price re-rated into positive territory and currently trades at a 4.8% premium to cum-fair NAV. Over the last one, three, five and 10 years, WPC's discount has averaged 7.1%, 11.1%, 12.3% and 13.2% respectively.

The board repurchases shares when they are trading at a substantial and anomalous discount to NAV. During FY20, c 1.2m shares were bought back at an average discount of 10.5%, which added 0.8p per share to NAV. So far in FY21 an additional 0.3m shares have been repurchased at a cost of £1.0m through the regular share buyback programme.

Exhibit 15: Share price premium/discount to NAV (including income) over three years (%)



Source: Refinitiv, Edison Investment Research

Capital structure and fees

Guided by the timeline of the circular published by the company on 24 August 2020, BGCG ran a tender offer to purchase up to 40% of the company's issued shares. The board announced the tender offer results on 1 October 2020: 17.4m shares, being 26.4% of the issued share capital, were tendered. The tender price and the total purchase consideration were 388p per share (392p per share NAV on 28 September 2020 less 1%) and £67.5m, respectively. Following the implementation of the tender offer on 2 October, the company had 65.9m shares in issue, of which

22.5m were held in treasury. As the trust has rerated substantially since the mandate change, BGCG has begun reissuing shares from treasury and selling them at a premium.

The tiered management fees are 0.75% on the first £50m of NAV; 0.65% on the next £200m; and 0.55% thereafter. BG has agreed to waive its investment management fee for the first six months following its appointment. BG will make a significant marketing contribution to all investor marketing activity undertaken on behalf of the company during the first year of its management.

Dividend policy and record

The new investment policy aims to produce long-term capital growth only, whereas WPC aimed for both growth and income. Given this change, investors should not expect to receive the same level of (or any) income after FY22. If there is net income, the company will distribute it as required by the investment company rules. The board intends to mitigate the impact on shareholder income as a result of the manager and strategy change in the short term. While the current level of dividend will therefore not be covered by the future investment income, the board intends to continue to pay out dividends at the prevailing level of 7.15p per share per annum in respect of FY21 (to 31 January 2021) and FY22. The dividends will be paid in October and June, respectively, from the company's £13.2m (at 31 January 2020) revenue reserves. At the end of FY20, the trust's revenue reserve was 21p per share, close to 3x the FY20 annual dividend. After deducting the dividends, paid in June and to be paid in October 2020 (for FY21), the cover is c 2x. Given that 17.4m issued shares were tendered in September 2020, the current revenue reserve per ordinary share cover is c 3.2x the FY20 annual dividend.

WPC's annual dividends had increased for the last 15 consecutive financial years, compounding at an annual rate of close to 12.0%. Over the last five years, the trust's dividend had compounded at a rate of 9.0% pa. It currently offers a 1.6% dividend yield.

Peer group comparison

The rankings in Exhibit 16 illustrate the BG China strategy's superior performance well. BG China OEIC ranks top of the nine largest (£200m plus market cap) open-ended peers over one-, three-, five- and 10-year periods. In comparison, WPC ranked last but one of the nine Asia Pacific closed-ended peers over three-, five- and 10-year periods. Of the nine closed-ended Asia Pacific funds, Pacific Horizon (PHI), which is also managed by BG, ranks first for performance over all four time periods. PHI is co-managed by Roderick Snell, the co-manager of BGCG.

Both of BGCG's closed-ended China peers significantly outperformed the broader Asia Pacific sector average.

Discounts for both China funds are in single digits, at 2.5% (JPMorgan China Growth & Income) and 5% (Fidelity China Special Situations); they are narrower than the 6.8% average discount of the nine (including WPC) closed-ended Asia Pacific funds. BGCG's 5.6% premium to NAV (at 30 September 2020) reflects the transition to BG and is comparable with the 5.5% premium of PHI.

Exhibit 16: Selected peer group as at 30 September 2020*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
Asia Pacific closed-ended peers										
Witan Pacific (now BGCG)	250.9	7.6	15.2	74.2	97.5	5.6	1.0	Yes	100	1.7
Aberdeen New Dawn	289.5	9.4	26.4	103.6	100.2	(12.7)	0.8	No	108	1.6
Asia Dragon	528.6	6.5	25.7	99.3	104.9	(13.5)	0.8	No	104	1.1
Fidelity Asian Values	255.9	(5.7)	2.3	68.4	95.8	(10.2)	1.1	Yes	102	2.6
Invesco Asia	194.2	9.1	15.7	101.0	148.0	(13.6)	1.0	No	104	2.4
Pacific Assets	321.7	3.3	26.6	75.9	165.2	(12.8)	1.2	No	100	1.1
Pacific Horizon	390.5	60.7	72.9	209.8	228.5	5.5	1.0	No	105	0.0
Schroder Asian Total Return Inv Co	416.8	21.0	35.1	133.5	143.9	0.5	0.9	Yes	108	1.5
Schroder AsiaPacific	850.8	18.3	24.9	120.4	188.2	(10.1)	0.9	No	100	1.9
Asia Pacific sector average (9 funds)	388.8	14.5	27.2	109.6	141.4	(6.8)	1.0		103	1.6
WPC rank in peer group	8	6	8	8	8	1	4		7	4
China closed-ended peers										
Fidelity China Special Situations	1,711.3	53.6	48.8	177.3	271.4	(5.0)	1.0	No	123	1.3
JPMorgan China Growth & Income	401.3	63.7	87.9	236.0	291.2	(2.5)	1.3	No	100	2.7
Open-ended China peers										
							TER			
Baillie Gifford China B Acc	343.4	47.0	57.4	218.2	238.7		1.6	No		0.7
AS SICAV I All China Equity	482.1	18.1	39.1	105.8	87.2		2.0	No		N/a
Barings Hong Kong China	1,422.0	34.9	44.1	138.5	122.7		1.7	No		0.1
Fidelity China Focus A-Dis-	2,024.4	(5.2)	(0.6)	68.0	78.1		1.9	No		1.5
Invesco China Equity Fund UK	435.0	24.2	38.7	130.3	180.9		1.7	No		0.2
Janus Henderson China Opps	839.3	20.2	27.5	133.8	142.4		1.7	No		0.2
Neuberger Berman China Eq	520.2	18.0	14.8	79.8			2.0	No		0.4
Pictet-Greater China P dy	235.4	30.8	45.4	132.7	158.1		1.7	No		0.5
Schroder ISF Greater China	1,798.2	29.5	47.0	164.9	178.1		1.9	No		1.4
Open-ended average (9 funds)	899.1	23.6	34.5	130.4	146.9		1.8			0.6
BG China OEIC rank in peer group	8	1	1	1	1		9			3

Source: Morningstar, Edison Investment Research. Note: *Performance to 30 September 2020 based on ex-par NAV. TR=total return. TER=total expense ratio. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

BGCG's board currently has four directors, all of whom are non-executive and independent of the manager. The board members are: Susan Platts-Martin (appointed in July 2014, chairman since June 2017); Dermot McMeekin, senior independent director (appointed in May 2012); Andrew Robson (appointed in July 2014); and Chris Ralph (appointed in July 2017).

The board intends to undertake a recruitment process to appoint an additional non-executive director to complement and add to the board's existing China experience.

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