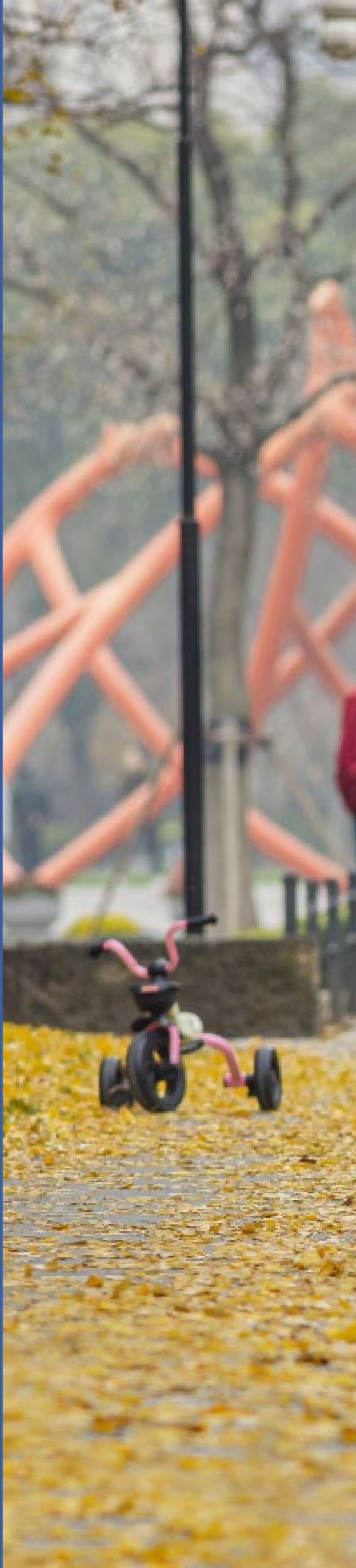
NEW CHAPTER IN CHINA

Since its foundation in 1908, Baillie Gifford has based its global investment research at its Edinburgh HQ. Not anymore. Shanghai-based partner John MacDougall and investment managers Linda Lin and Rio Tu tell Crystal Wilde why China demands a different approach

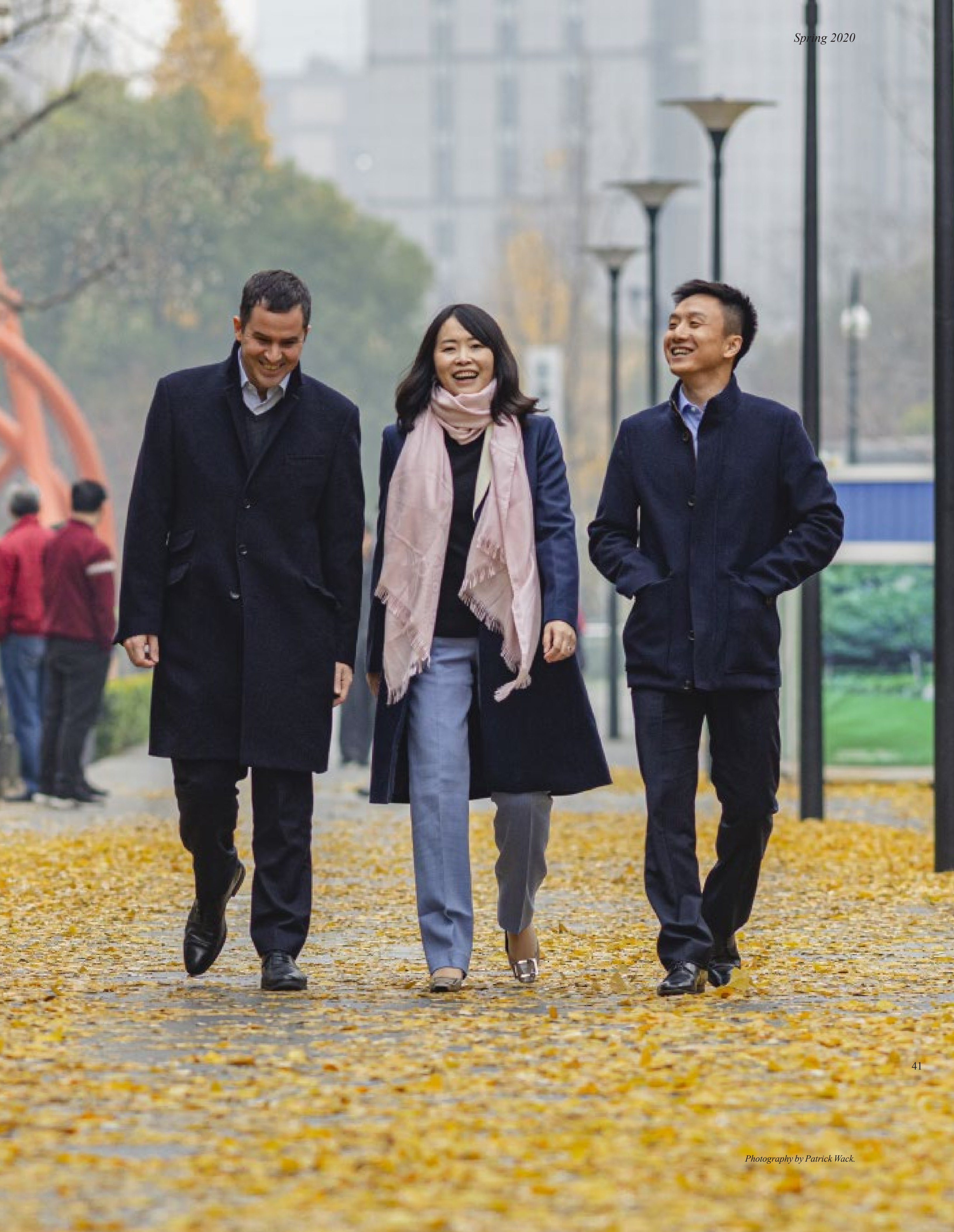
With tens of millions of prosperous consumers buying from innovative and ruthlessly competitive companies, China is both exciting and daunting for foreign investors. After over 20 years weighing risk and reward in the Middle Kingdom, Baillie Gifford is opening an investment research office in Shanghai, the nation's mercantile heart.

The firm knows the lie of the land. It has invested in Chinese industries as diverse as social media, sharable bicycles, fintech and food. Five of its trusts – Scottish Mortgage Investment Trust, The Monks Investment Trust, The Scottish American Investment Company (SAINTS), Edinburgh Worldwide Investment Trust and Pacific Horizon Investment Trust – have holdings in Chinese companies. In total Baillie Gifford invests around $36 billion for clients in China.

"We have a strong belief that over the next couple of decades, more and more of the world's innovation and its exciting new business models will emanate from China, as well as from Silicon Valley and Europe," says John MacDougall. The Baillie Gifford partner set up the Shanghai office in September 2019 after 19 years with the firm in his native Scotland.



John MacDougall, Linda Lin and Rio Tu in Jing'an Sculpture Park.



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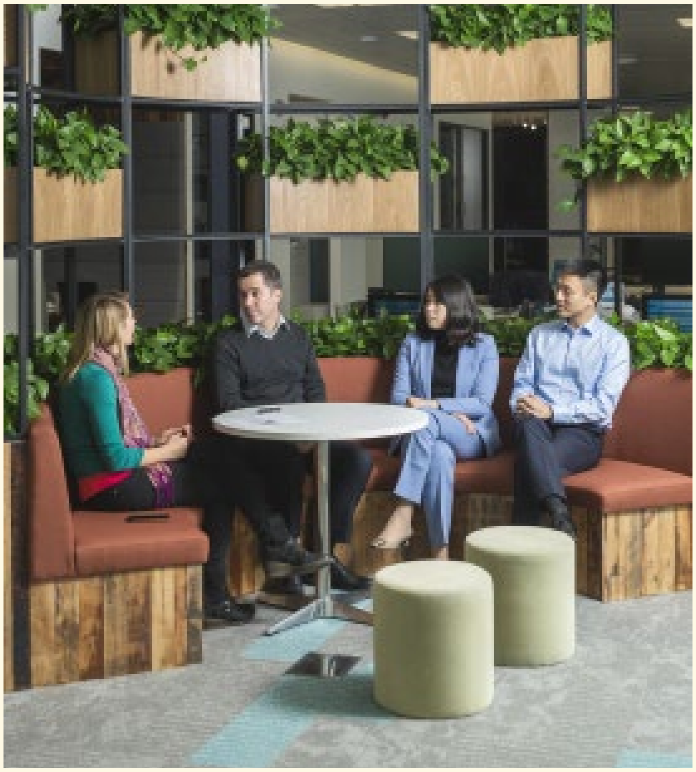

From Edinburgh, at five and a half thousand miles distance, Baillie Gifford became a top shareholder in e-commerce juggernaut Alibaba, food delivery app Meituan-Dianping, internet giant Tencent, online travel agent Ctrip and fast-growing shopping app Pinduoduo. But these household names in China are all listed outside the mainland. Now Baillie Gifford is focusing on local markets and the renminbi-traded shares on the Shanghai and Shenzhen stock exchanges. It wants committed on-the-ground expertise to boost firm-wide research into rising Chinese companies.

The panorama from the new 42nd-floor office in Shanghai's upmarket Jing'an district is testament to China's seemingly unstoppable economic growth. Since the country's 'reform and opening-up' drive was launched in 1979, GDP has climbed on average by a head-spinning 9.5 per cent a year to 2018. Now 80 per cent of the market capitalisation of more than half its key industry sectors is listed in local markets.

At home in Edinburgh, distance from the London hubbub allows investors space to think long term. Similarly in Shanghai, MacDougall and the vanguard of Baillie Gifford investors have shunned Pudong, the city's shiny new Canary Wharf equivalent on the east bank of the wide Huangpu River.

"Because we've chosen to be on this side of the river, our neighbours are in sectors such as fashion, the automobile industry, spirits and luxury goods," MacDougall explains. "The people we're interacting with and hearing stories about China from aren't just a bunch of investment bankers."

According to MacDougall, in a further bid to "shut out the noise of short-termism" the team is following another approach set in Scotland. Under the stewardship of Linda Lin, who grew up in Chongqing, was educated in New Zealand and has worked at Baillie Gifford for six years, the Shanghai office will set up what she calls a "three-tier research platform," drawing on insights from industry leaders, scholars and independent thinkers to inform their vision.

"We have been building great relationships with the owners of the next generation of companies," explains Lin. "They are going to transform entire industries so we should invest time with them to find out how they see that transformation – and China in general – developing in the next five-to-ten years.

"Then there's the academic perspective, which includes Chinese Government think tanks and writers. Also journalists and independent writers who have insights into companies that investment banks don't have."

The team will be putting in the legwork to make first contact with China's often elusive domestically-listed and private companies. Rio Tu, originally from Hubei Province, who joined Baillie Gifford's graduate programme in 2014, has been attending industry conferences earmarking areas of interest in his first few months back in China, honing in on software and healthcare innovators.

In these sectors, as in all others in China, connections (*guanxi* in Mandarin) do matter. As Tu explains, thanks to Baillie Gifford's position as a main shareholder in US-based gene-sequencing company Illumina he has been introduced to domestic industry leader Berry Genomics. He has also toured the vast China National GeneBank in Shenzhen, a joint venture between the Chinese Government and Berry's competitors BGI. Due to their commercially sensitive data, both companies are – and will remain for the foreseeable future – domestically-listed. The gradual building of *guanxi* is essential for winning their trust.

"We already have a very good relationship with companies such as Alibaba and Tencent, and we want to replicate this with domestically-listed companies," says Tu. "A base in China helps build these relationships gradually."

This commitment to the slow, steady and long term stands out, given the amount of short-term traders within the China market. "We are the culture carriers, the torchbearers for long-termism," Tu adds, tongue-half-in-cheek. He describes how influential CEOs such as Alibaba's Jack Ma and Wang Xing of Meituan-Dianping have spoken approvingly of Baillie Gifford's lack of interest in short-term gains compared to most of their shareholders. "Ultimately, we think the same way as the business founders, who are always the most committed investors."

As China, its companies and its markets, attract more international investors, achieving a better understanding of the landscape matters more. Those scouting the horizon, reading the tea leaves and accumulating *guanxi* may be best able to secure long-term growth. ■