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investmentVIEW



This month we have an article discussing the Baillie Gifford Greater China Fund and the re-emergence of China as a world economic power.

A look at the Baillie Gifford Greater China Fund, jointly managed by Richard Sneller & Michael Gush



Richard Sneller



Michael Gush



The re-emergence of China as a world economic power is perhaps the biggest investment opportunity we have seen for a generation. In March this year, the World Bank forecast that China would achieve a whopping 9.5% GDP growth in 2010. What's more, the Bank concluded that "growth should remain robust" and forecast 9% growth for 2011. Currently, only India is anywhere near this level of GDP with 7.5% growth for this year.

To give this some perspective, compare these figures with those countries of the 'developed world' which are teetering between 1.0% and 2.5% GDP growth. GDP figures which are just short of double digits clearly show just what a

powerhouse China is, but with growth like this, inflation is never far away. The World Bank predicts that China's inflation is likely to be "significant in 2010" and forecasts an inflation rate of between 3.5%-4% this year and it expects high price rises in food and raw materials.

Many economists are looking to China to contain inflation through tighter macroeconomic policies, such as using interest rates in monetary policy and through exchange rates. By the end of March this year all we've seen is a deputy central bank governor agreeing to a "tweak" in monetary policy. China is currently under fire, especially from the US, over claims that it is manipulating its

Fund Manager Spotlight

currency to serve as a subsidy for Chinese goods.

Going forward however, Chinese growth is expected to come, in part, from a recovery in the country's exports. China reported a trade deficit of £4.7bn in March 2010, its first monthly trade deficit in six years. However, the total value of imports and exports for the first quarter of 2010 rose over 40%. The value of exports rose 28% and the value of imports rose 64%.

Much of this trade is driven by China's burgeoning middle class. There are now nearly 300 million people classified as middle class in China and as Aristotle mused, the middle classes are the

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bulwark of society. While the Western middle classes are up to their ears in debt, many corporations are looking to the new emerging-market middle classes to take up the slack, as these are now growing faster than expected in both numbers and in wealth. In 2009 for example, a staggering 70 million people joined the emerging-market middle class.

But how does this translate into business? Well, consider the fact that the Chinese purchased more cars than Americans did in 2009 and by 2030, it is estimated that more than nine out of every ten mobile phones will be owned by people in the Developing World - with China, and India, leading the way.

China's aging population however, the largest in the world, is nonetheless putting pressure on the country's economic and social development. It's forecast that the number of senior citizens will peak in 2030 when the national population hits 1.5bn. It is estimated that China will have 174m over 60s in 2010, which is more than 12% of the population. There are however, similar strains on the economies of the West as life expectancies continue to rise.

The potential returns from investment in the geographic area known as Greater China - mainland China, Taiwan and Hong Kong - hold many attractions. According to the IMA, performance of the average fund in the Asia Pacific ex Japan sector was the third top performing sector over the year to 31 March this year returning over 60% growth. Over five years, the sector was second top in terms of performance and returns grew at over 120%.

Baillie Gifford has been investing in Asia for more than 100 hundred years and as at 31 March 2010, has over £1.9bn invested in the Greater China region alone. Launched in 2008, the Baillie Gifford Greater China Fund is ideally suited to investment in this region. The Fund is jointly managed by Richard Sneller and Michael Gush and key to their success is a core of experienced investors (six investment managers and five analysts) who have worked together for a number of years researching stocks and managing portfolios.

With around 75 stocks, the Fund looks to achieve capital growth by investing in equities of mainland China, Hong Kong and Taiwan, very roughly split 60% / 20% / 20% respectively. This top-quartile Fund (in the IMA's Asia Pacific ex Japan sector) also invests in the shares of companies listed on other exchanges which derive the majority of their revenues or profits from one or more of these countries.

Current equity holdings in financials; technology and energy sectors are represented in the Fund and top holdings include stocks such as Bank of China; TSMC a Taiwanese semiconductor manufacturing company and Hon Hai Precision the Taiwanese manufacturer that makes everything from PCs for Hewlett-Packard to cell phones for Nokia and PlayStation game consoles for Sony.

While in the short term there may be concerns over inflation and government macroeconomic policy, in the long term Baillie Gifford feels the outlook is compelling. Structural factors such as infrastructure investment, urbanisation, industrialisation and a developing middle class continue to underpin the development of

the country and also provide exciting opportunities for long-term investors. Rarely can an investment decision be made today without considering the implications of China, whether it be as a source of demand and supply, the impact of its companies and their competitive positions or its role in supplying capital to fuel consumption in the West.

IMPORTANT NOTES:

Past performance is not a guide to future performance. Investment markets can go down as well as up and market conditions can change rapidly. The value of an investment in the Baillie Gifford Greater China Fund, and any income from it, can fall as well as rise and investors may not get back the amount invested. The Fund invests in emerging markets which could go down or up more than the main international markets. Changes in the rates of exchange may cause the value of your investment (and any income it may pay) to go down. The Fund's concentrated portfolio and long-term approach to investment may result in large movements in the share price.

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