

Guinness Best of China Fund

INVESTMENT COMMENTARY – June 2021

| | | | |
|--|---|----------------|--------------------|
| Launch date | 15.12.15 | | |
| Team | Edmund Harriss (manager) Sharukh Malik (manager) Mark Hammonds (analyst) | | |
| Aim | <p>Guinness Best of China Fund is designed to provide investors with exposure to economic expansion and demographic trends in China and Taiwan.</p> <p>The Fund is managed for capital growth and invests in profitable companies generating persistently high return on capital over the business cycle.</p> | | |
| Performance (in GBP) | 31.05.20 | | |
| Fund | Best of China Fund (Z Cls, 0.74% OCF) | | |
| Index | MSCI Golden Dragon | | |
| Sector | IA China/Greater China | | |
| | 2020 | 2019 | 2018 |
| Fund | 14.8 | 26.0 | -20.3 |
| Index | 24.2 | 19.0 | -9.5 |
| Sector | 33.6 | 22.2 | -14.2 |
| | 1 year | 3 years | From launch |
| Fund | 30.5 | 19.2 | 114.0 |
| Index | 29.2 | 31.1 | 136.9 |
| Sector | 32.1 | 33.9 | 137.8 |
| Annualised % total return from launch (GBP) | | | |
| Fund | 14.9% | | |
| Index | 17.1% | | |
| Sector | 17.2% | | |
| Risk analysis (annualised, weekly, from launch) | | | |
| | Index | Sector | Fund |
| Alpha | 0.0 | 0.2 | -1.7 |
| Beta | 1.0 | 1.0 | 1.0 |
| Info ratio | 0.0 | 0.0 | -0.3 |
| Max drwdown | -17.8 | -21.7 | -25.7 |
| Tracking err | 0.0 | 4.9 | 6.5 |
| Volatility | 17.9 | 18.2 | 19.2 |
| Sharpe ratio | 0.7 | 0.7 | 0.6 |
| Past performance should not be taken as an indicator of future performance. The value of this investment and any income arising from it can fall as well as rise as a result of market and currency fluctuations. | | | |
| Source: Financial Express, bid to bid, total return 0.74% OCF. Returns for share classes with a different OCF will vary accordingly. Please refer to the penultimate page of this document for full performance details. | | | |

Fund & Market

- In May, the Best of China Fund fell 1.9% (in USD, Z class) while the MSCI Golden Dragon Net Total Return Index fell 2.1%.
- Chinese markets bottomed in the middle of the month, which was followed by a recovery. In May, MSCI China fell 0.8%, MSCI Hong Kong fell 1.0% and MSCI Taiwan fell 1.2%. The Shanghai Shenzhen CSI 300 Index, however, rose 5.0%.
- MSCI China Growth fell 3.3% while MSCI China Value rose 1.9%.
- In MSCI China, the strongest sectors were Healthcare (total return of +6.8%), Consumer Staples (+5.7%) and Utilities (+4.3%) while the weakest were Consumer Discretionary (-5.2%), Communication Services (-2.8%) and Real Estate (-0.5%).
- In MSCI Hong Kong, the Real Estate and Financials indexes rose 0.6% and fell 1.0% respectively.
- In Taiwan, the Information Technology Index, which makes up more than 70% of the local index, fell 2.0%.
- In the Fund, strong performers were CSPC Pharmaceutical, China Resources Gas and Lead Intelligent. Weaker stocks were New Oriental Education, Autohome and Novatek Microelectronics.

Events in May

- The official Purchasing Managers' Index (PMI) fell very slightly from 51.1 in April to 51.0 in May. A figure above 50 indicates expanding activity. Meanwhile, the Caixin PMI rose

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very slightly from 51.9 in April to 52.0 in May. Both measures showed higher raw material prices.

- Retail sales grew 10.1% year-on-year (yoy) in May, which was weaker than expected.
- Credit growth has clearly been slowing down. Total social financing, the broadest measure of credit growth, grew 11.0% in May. This compares to 12.6% growth in 2020. The government’s focus is now on managing the trade-off between supporting economic growth and controlling financial risks.
- Headline consumer price inflation (CPI) was 1.3% in May while producer price inflation (PPI) was 9.0%. Despite rising PPI, the PBOC is expecting average CPI to be below 2.0% this year.
- Census data revealed that China’s working age population continued to fall over the past decade. Birth rates continue to fall, prompting the government to allow each family to have three children. But it was only in 2016 that the government allowed all families to have two children, which did not lead to a sustained increase in birth rates. The government will have to do more to incentivise families to have more children. This will include managing high housing costs in tier one and two cities, as well as improving the general quality of public schooling.
- The Renminbi continued to appreciate against the dollar, reaching USDCNY 6.37 at the end of May which was its strongest level since 2018. As a result, the PBOC increased the level of foreign currency deposits that banks must hold in their reserves, which should help slow down the pace of currency appreciation.

Portfolio Performance

In May, the top and bottom five contributors to performance are shown below, with the contribution to relative performance shown in brackets:

| Top 5 Contributors | Top 5 Detractors |
|--------------------------------|----------------------------------|
| CSPC Pharmaceutical (+0.6%) | New Oriental Education (-1.1%) |
| Underweight in Alibaba (+0.6%) | Novatek Microelectronics (-0.7%) |
| China Resources Gas (+0.5%) | Autohome (-0.5%) |
| Meituan (not held) (+0.4%) | Elite Material (-0.3%) |
| China Merchants Bank (+0.3%) | Catcher Technology (-0.2%) |

Attribution relative to a portfolio holding the weighted average of the iShares MSCI China ETF, iShares MSCI Hong Kong ETF and iShares MSCI Taiwan ETF.

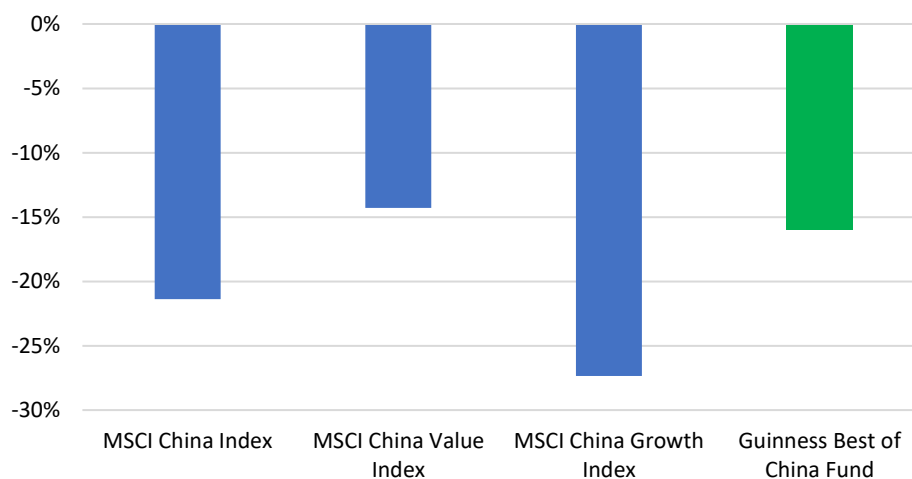
Chinese markets have been weak between February and May, falling 21% from peak to trough. Notably, growth stocks fell by much more (-27%) compared to value stocks (-14%). We are pleased that the Fund outperformed MSCI China in the sell-off. However as the Fund invests in companies with exposure to the structural growth themes we have identified, we find it more interesting to compare it against the growth index. As a reminder, over the past five years, the Fund has grown sales and earnings at a significantly

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Guinness Best of China Fund

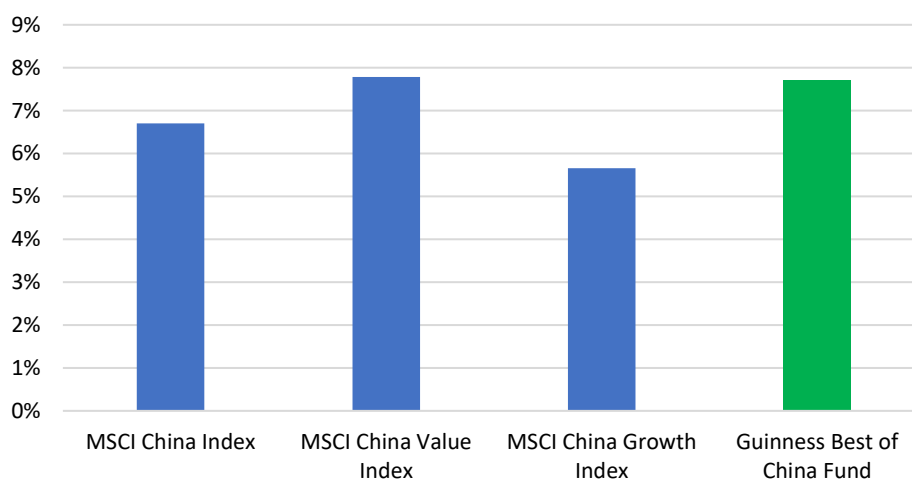
higher rate than the growth index. In the sell-off, the Fund outperformed the growth index by 11% and only underperformed by the value index by 2%. During the rebound which started in the middle of May, the value index has actually been ahead of the growth index. The Fund has outperformed both the China index as well as the growth index in the rebound.

China's Return During the Sell-Off



Returns from 17/02/21 to 13/05/21.

China's Return During the Rebound



Returns from 13/05/21 to 28/05/21.

Company Updates

CSPC Pharmaceutical reported good first quarter results. The company's largest product, NBP which is used to treat strokes, faced significant price cuts to remain on the national reimbursement list. But volume growth has been rapid in the two months after the price cut and there is a chance that sales could be flat for the year. Looking at the rest of the business, there are signs that CSPC has the ability to find new growth drivers. It recently won approval to sell Amphotericin B, an anti-fungal generic drug, which could be a decent contributor to revenue and earnings in the future. CSPC also signed a deal with KeyMed

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Bioscience for CM310, which is used to treat respiratory illnesses like asthma. Overall, for a growing businesses, we think the valuation for the company is very undemanding.

China Resources Gas' (CRG) volume was 22% higher in the first four months of 2021 than in the first four months of 2019. The company's dollar margin has so far been stable despite higher input costs, due to a rebound in sales from higher margin commercial customers. CRG is in the process of passing on higher costs to its residential customers, a sign of its pricing power.

New Oriental Education continues to come under regulatory pressure. The company is one of the largest providers of after school tuition services but the government is trying to reduce students' workload. The issue is deemed important enough for party leadership to be involved as, for example, Premier Le Keqiang commented on the issue. Currently, the level of regulatory intervention is uncertain and we await further details.

Summary view & outlook

The pace of credit growth continues to slow down, signalling that the government is now balancing the need to support economic growth against the risks arising from rising debt. We think the end of the easing cycle is likely to lower the multiples that the market is willing to pay, especially in the A share market. In the Fund, we aim to invest in growing, profitable businesses exposed to the seven structural growth themes we have identified. But valuations are key here – we want to avoid situations where a valuation derating could potentially offset much, if not all, of the expected earnings growth. The Fund trades at an expected P/E ratio of 15.6, this puts it a discount of 6% to the benchmark which trades at 16.7x. Over the past five years, the aggregate sales and earnings of the Fund have grown at an annualised rate of 11% each. This is a sign of the benefits of our process – our companies have shown evidence that they take advantage of the structural growth opportunities present, and we expect them to continue to do so.

Edmund Harriss (portfolio manager)

Sharukh Malik, CFA (portfolio manager)

Mark Hammonds, CFA (analyst)

Data sources

Fund performance: *Financial Express*, total return
0.74% OCF

Index and stock data: *Bloomberg*

Guinness Best of China Fund

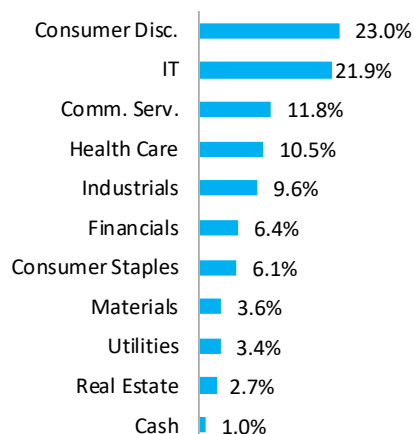
PORTFOLIO

31/05/2021

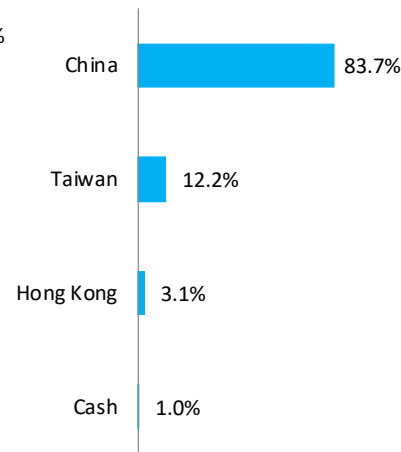
Fund top 10 holdings

| | |
|---------------------------|-------|
| China Lesso Group | 4.1% |
| CSPC Pharmaceutical Gro | 3.9% |
| Beijing Oriental Yuhong | 3.6% |
| Wuxi Lead Intelligent Equ | 3.5% |
| China Medical System | 3.5% |
| China Merchants Bank | 3.5% |
| China Resources Gas Gro | 3.4% |
| Haier Smart Home | 3.3% |
| Novatek Microelectronics | 3.3% |
| Zhejiang Supor | 3.2% |
| % of Fund in top 10 | 35.3% |
| Total number of stocks | 37 |

Sector analysis



Geographic allocation



PERFORMANCE

31/05/2021

Annualised % total return from launch (GBP)

| | |
|---------------------------------------|-------|
| Fund (Z Class, 0.74% OCF) | 14.9% |
| MSCI Golden Dragon Index | 17.1% |
| IA China/Greater China sector average | 17.2% |

Discrete years % total return (GBP)

| | May '21 | May '20 | May '19 | May '18 | May '17 |
|---------------------------------------|---------|---------|---------|---------|---------|
| Fund (Z Class, 0.74% OCF) | 30.5 | 8.3 | -15.6 | 21.8 | 50.4 |
| MSCI Golden Dragon Index | 29.2 | 9.9 | -7.7 | 19.0 | 46.5 |
| IA China/Greater China sector average | 32.1 | 14.7 | -11.6 | 24.2 | 44.2 |

Cumulative % total return (GBP)

| | 1 month | Year-to-date | 1 year | 3 years | 5 years | From launch |
|---------------------------------------|---------|--------------|--------|---------|---------|-------------|
| Fund (Z Class, 0.74% OCF) | -3.3 | 6.3 | 30.5 | 19.2 | 118.3 | 114.0 |
| MSCI Golden Dragon Index | -2.3 | 2.4 | 29.2 | 31.1 | 128.4 | 136.9 |
| IA China/Greater China sector average | -0.5 | 1.0 | 32.1 | 33.9 | 139.8 | 137.8 |

RISK ANALYSIS

31/05/2021

| Annualised, weekly, from launch on 15.12.15, in GBP | Index | Sector | Fund |
|---|--------|--------|--------|
| Alpha | 0.00 | 0.23 | -1.71 |
| Beta | 1.00 | 0.98 | 1.01 |
| Information ratio | 0.00 | -0.03 | -0.27 |
| Maximum drawdown | -17.78 | -21.67 | -25.74 |
| R squared | 1.00 | 0.93 | 0.88 |
| Sharpe ratio | 0.73 | 0.71 | 0.57 |
| Tracking error | 0.00 | 4.85 | 6.53 |
| Volatility | 17.90 | 18.20 | 19.24 |

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Source: Financial Express, bid to bid, total return (0.74% OCF). Fund launch date: 15.12.2015.

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Important information

Issued by Guinness Asset Management Limited, authorised and regulated by the Financial Conduct Authority.

This report is primarily designed to inform you about Guinness Best of China Fund. It may provide information about the Fund's portfolio, including recent activity and performance. It contains facts relating to the equity markets and our own interpretation. Any investment decision should take account of the subjectivity of the comments contained in the report.

This document is provided for information only and all the information contained in it is believed to be reliable but may be inaccurate or incomplete; any opinions stated are honestly held at the time of writing, but are not guaranteed. The contents of the document should not therefore be relied upon. It should not be taken as a recommendation to make an investment in the Fund or to buy or sell individual securities, nor does it constitute an offer for sale.

Risk

The Guinness Best of China Fund is an equity fund. Investors should be willing and able to assume the risks of equity investing. The value of an investment and the income from it can fall as well as rise as a result of market and currency movement, and you may not get back the amount originally invested. Details on the risk factors are included in the Fund's documentation, available on our website. Shareholders should note that all or part of the fees and expenses will be charged to the capital of the Fund. This will have the effect of lowering the capital value of your investment.

Documentation

The documentation needed to make an investment, including the Prospectus, the Key Investor Information Document (KIID) and the Application Form, is available from the website www.guinnessfunds.com, or free of charge from:-

- the Manager Link Fund Manager Solutions (Ireland) Ltd, 2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland; or,

- the Promoter and Investment Manager: Guinness Asset Management Ltd, 18 Smith Square, London SW1P 3HZ.

Residency

In countries where the Fund is not registered for sale or in any other circumstances where its distribution is not authorised or is unlawful, the Fund should not be distributed to resident Retail Clients.

NOTE: THIS INVESTMENT IS NOT FOR SALE TO U.S. PERSONS.

Structure & regulation

The Fund is a sub-fund of Guinness Asset Management Funds PLC (the "Company"), an open-ended umbrella-type investment company, incorporated in Ireland and authorised and supervised by the Central Bank of Ireland, which operates under EU legislation. If you are in any doubt about the suitability of investing in this Fund, please consult your investment or other professional adviser.

Switzerland

This is an advertising document. The prospectus and KIID for Switzerland, the articles of association, and the annual and semi-annual reports can be obtained free of charge from the representative in Switzerland, Carnegie Fund Services S.A., 11, rue du Général-Dufour, 1204 Geneva, Switzerland, Tel. +41 22 705 11 77, www.carnegie-fund-services.ch. The paying agent is Banque Cantonale de Genève, 17 Quai de l'Île, 1204 Geneva, Switzerland.

Singapore

The Fund is not authorised or recognised by the Monetary Authority of Singapore ("MAS") and shares are not allowed to be offered to the retail public. The Fund is registered with the MAS as a Restricted Foreign Scheme. Shares of the Fund may only be offered to institutional and accredited investors (as defined in the Securities and Futures Act (Cap.289)) ('SFA') and this material is limited to the investors in those categories

Telephone calls will be recorded and monitored.

GUINNESS

ASSET MANAGEMENT

Guinness Asset Management Ltd is authorised and regulated by the Financial Conduct Authority

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