Guinness Best of Asia Fund

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INVESTMENT COMMENTARY – July 2021

Launch date	**28.12.17**
Managers	**Edmund Harriss** **Mark Hammonds** **Sharukh Malik**

Aim

Guinness Best of Asia Fund is designed to provide investors with exposure to economic expansion and demographic trends in the Asia Pacific region or elsewhere that do at least half of their business in the region.

The Fund is managed for capital growth and invests in profitable companies generating persistently high return on capital over the business cycle.

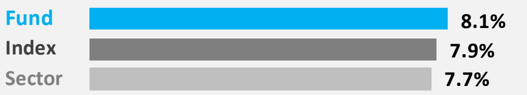
Performance (in GBP) 30.06.21

Fund	Best of Asia Fund (Z Cls, 0.74% OCF)
Index	MSCI AC Asia Pacific ex Japan
Sector	IA Asia Pacific Excluding Japan

	2020	2019	2018
Fund	25.1	16.3	-15.7
Index	18.7	14.6	-8.6
Sector	20.0	15.8	-9.8

	1 year	3 years	From launch
Fund	39.0	36.0	31.4
Index	24.6	33.8	31.0
Sector	27.1	36.0	33.4

Annualised % total return from launch (GBP)



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0.00	0.00	-0.07
Beta	1.00	1.00	1.10
Info ratio	0.00	0.00	0.06
Max drwdn	-20.20	-20.83	-23.96
Tracking err	0.00	0.00	6.68
Volatility	15.48	14.98	18.29
Sharpe ratio	0.29	0.35	0.27

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

Summary

Performance

In the **Second Quarter**, the Fund rose 1.2% (Z share class, in GBP) compared to the benchmark, the MSCI AC Asia Pacific ex Japan Net Total Return Index, which rose 4.0%.

- Growth index stocks, as measured by the MSCI AC Asia Pacific ex Japan Growth Net Total Return Index rose 3.8%, with much of that performance coming in June.
- Value stocks, as measured by the equivalent MSCI Value index, rose 4.2% driven by industrials, materials and financials.

However, over the year to date, the Fund remains 2% ahead of the benchmark and 4.7% ahead of the Growth index.

The Fund is designed to give exposure to what we believe to be structural growth themes in Asia. These include such themes as the rising middle class, next generation consumer, health care, financial services, specialist manufacturing, sustainability and technology.

We seek to identify profitable businesses in these areas that generate the cash flows which we think can support long term growth. We apply a value approach to this growth strategy by trying to separate out the value attributable to the cash flows from the existing business in order to take a view on the amount that we are willing to pay for future growth.

Earnings

26 companies in the portfolio (out of 32 positions) reported quarterly earnings per share (EPS), of which:

- 21 grew EPS by 11% to 300% compared to the same period last year
- 1 company reported 3% growth

- 1 company was unchanged
- 3 companies reported contraction of 10% to 54%.

In the first half of the year, we have had reports from all 32 companies. 25 companies have reported growth compared to 2020 and to 2019; 7 have reported earnings contraction. At the mid-year point, the forecast compound annual growth rate of portfolio EPS for the next three years is 17.2%.

Market

The market continues to weigh the risks of higher inflation, clearly evident in manufacturing cost prices, seeping into and persisting in consumer price inflation. While the US Federal Reserve continues to view these pressures as transitory, there appears to be a shift toward both an acceptance of higher inflation in the shorter term and a greater readiness to move on interest rates.

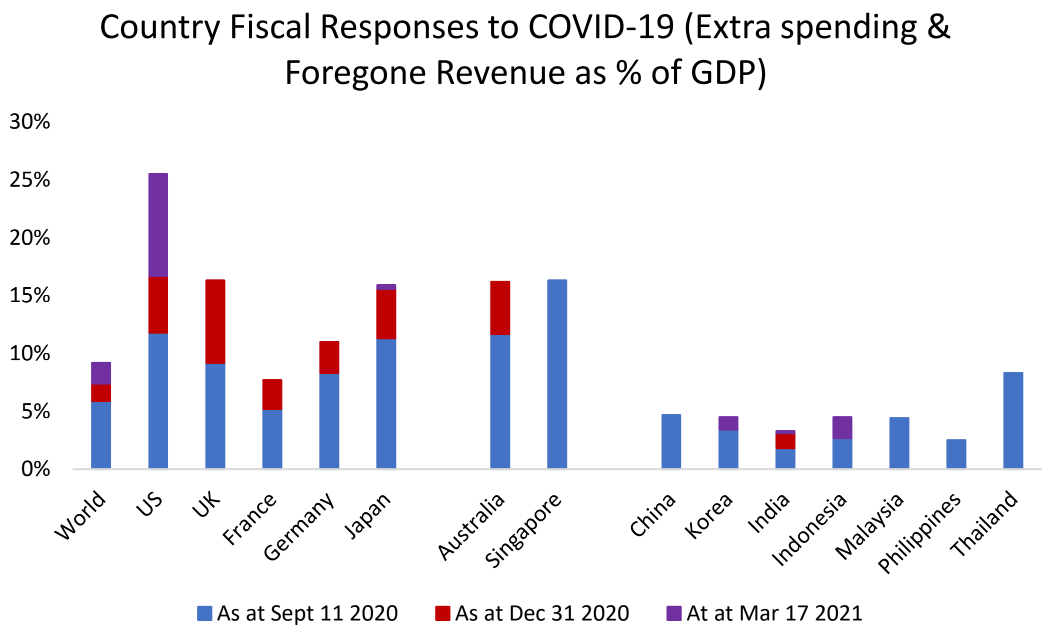
Asian markets have also had to address a resurgence in COVID, with case numbers up in Korea, Taiwan, Malaysia, Thailand and Vietnam and of course, India. China too has reported further outbreaks. The southern Chinese port of Yantian, in Shenzhen, was partially closed from 25 May–24 June. Value stocks benefitted for much of the quarter from the ongoing rise in commodity prices and the prospects for economies to re-open. At the end of the quarter, this view has been tempered somewhat and we have seen inflation expectations begin to fade and bond yields fall back, particularly in the US. There is no clearly discernible economic or market theme prevailing at present, as there was for much of 2020. This has suited the Fund.

Quarter Review

Macro review

The macroeconomic issues that came to the fore at the start of the year remain in place. Substantial support from governments, especially the US, have altered expectations on inflation and also raise longer term concerns about how the extra indebtedness will be supported as interest rates rise.

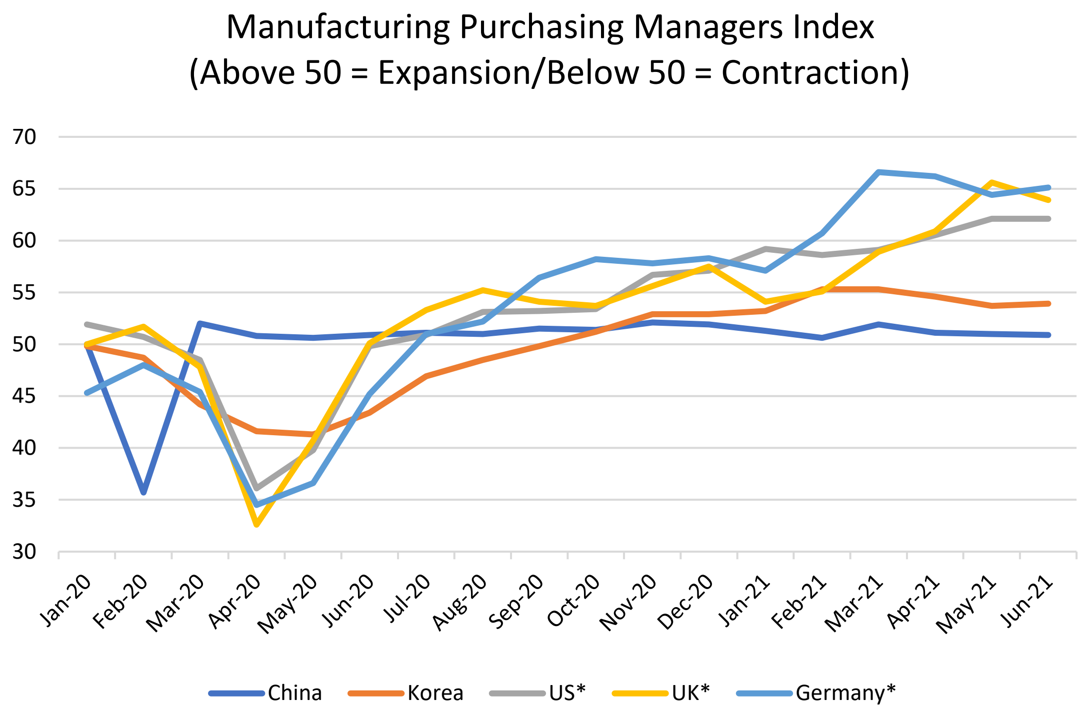
The chart below serves to emphasis the difference between developed market economies and Asia in terms of the support provided. In our view, the lower fiscal response in Asia – relative to the sizes of their economies – implies a lower fiscal burden in the years ahead.



Source: IMF Fiscal Monitor - Database of Country Fiscal Measures in Response to the COVID-19 Pandemic. Data as at 17 March 2021.

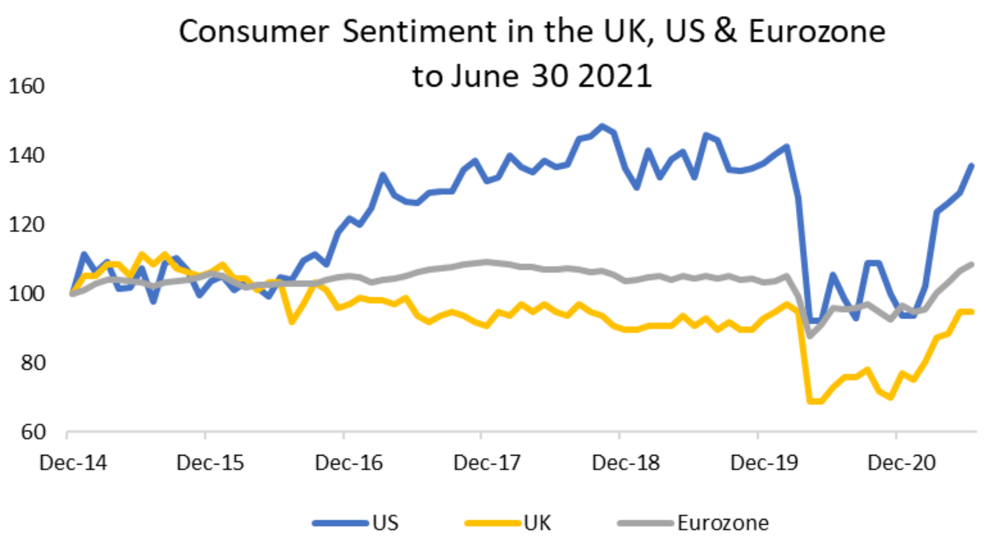
The size of the US response, recorded by the IMF and show in the chart above does not include further spending plans contemplated by the Administration. After a forty-year absence, the era of big government spending now seems to be back and politically, appears to be both acceptable and desirable. This could have implications for a changed inflationary, monetary and investing environment in the years ahead.

Inflationary pressures are also emerging as economies begin to re-open. We need hardly remind readers that there have been and remain some significant disruptions to the supply and movement of materials and goods. Businesses have shown a marked pick-up in confidence in anticipation of renewed spending. Inventories were run down and the sharp rise in business activity is evident from the Purchasing Managers' Indices which have moved firmly into expansion territory (over 50 on the chart). This has emphasised the impact of supply chain bottlenecks, which were further exacerbated by the recent blockage of the Suez Canal.



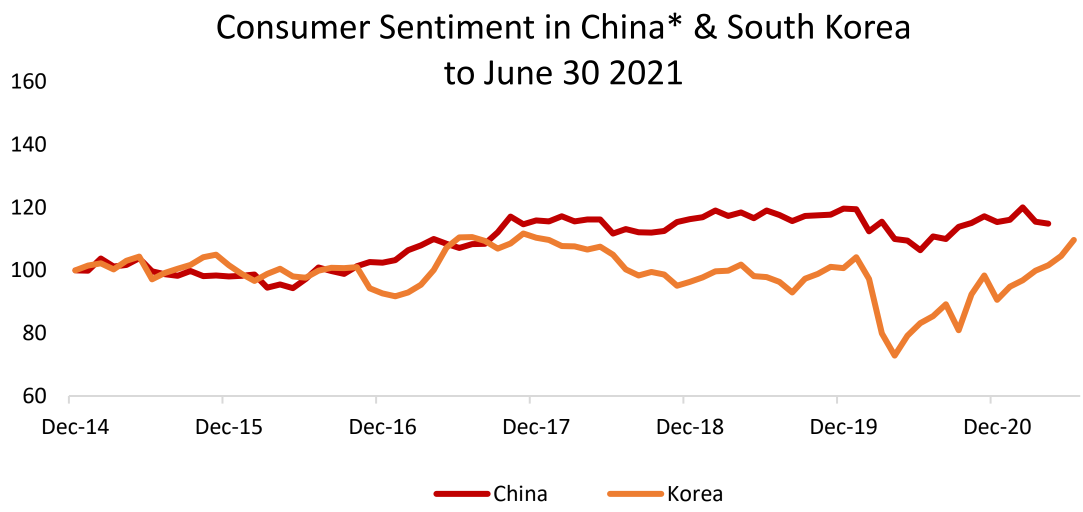
Sources: China - National Bureau of Statistics; Korea, US, UK, Germany – Markit. Data to 30 June 2021. * denotes estimated June figure

The success of the vaccine rollout programme in the UK, Europe and the US is evident in the recovery in consumer confidence. European consumers were still subdued back in March but in the last three months they have become significantly more optimistic, as indeed have those in the UK and the US.



Sources: US - Conference Board; UK - GFK; Europe - European Commission. Rebased to Dec 2014 = 100, Guinness Asset Management calculation.

The same is true in Asia with Korean consumer confidence also ticking higher, but it is not quite so certain in China. We only have Chinese data as far as April 2021 but anecdotal evidence tells us that optimism amongst consumer still lags that of business.



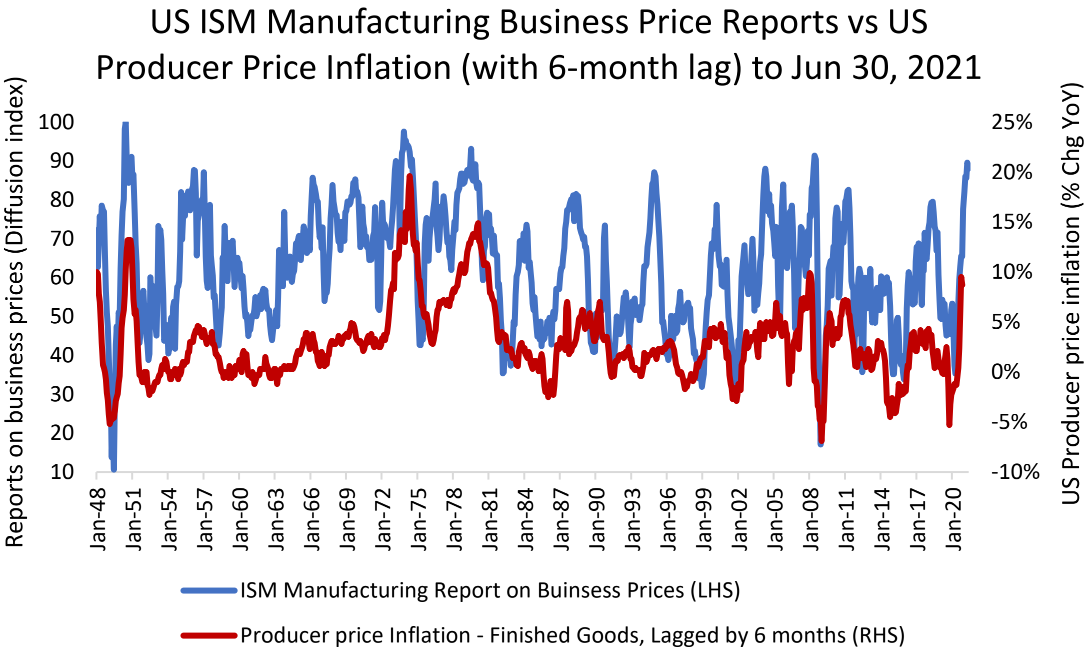
*Latest China data as of April 30, 2021

Sources: China - National Bureau of Statistics; Korea - Bank of Korea. Rebased to Dec 2014 = 100, Guinness Asset Management calculation.

During the recent Dragon Boat Festival holiday tourist movements and spending were still around 75% of pre-COVID levels. Looking at China's passenger car sales, we can see a rebound this year with 8.4 million passenger cars sold in the first five months of the year compared to 6.1 million in 2020, but this is unchanged from 2019. Consumer recovery and spending patterns are clearly patchy. At a regional level, it would appear that North Asia is looking brighter with a 9%-10% recovery over last year and 6%-7% over 2019 in Korea and Taiwan. South-east Asia was more affected; Thailand's retail sales are still contracting but Singapore reported its first significant bounce in April, with sales up 54% year on year.

Inflationary pressures are for the most part being driven by higher commodity prices with costs of energy, oil-based products, copper, iron ore, timber and cotton all on the rise. And this has collided with increase business confidence. This has pushed producer price inflation (the prices manufacturers pay for their materials) higher.

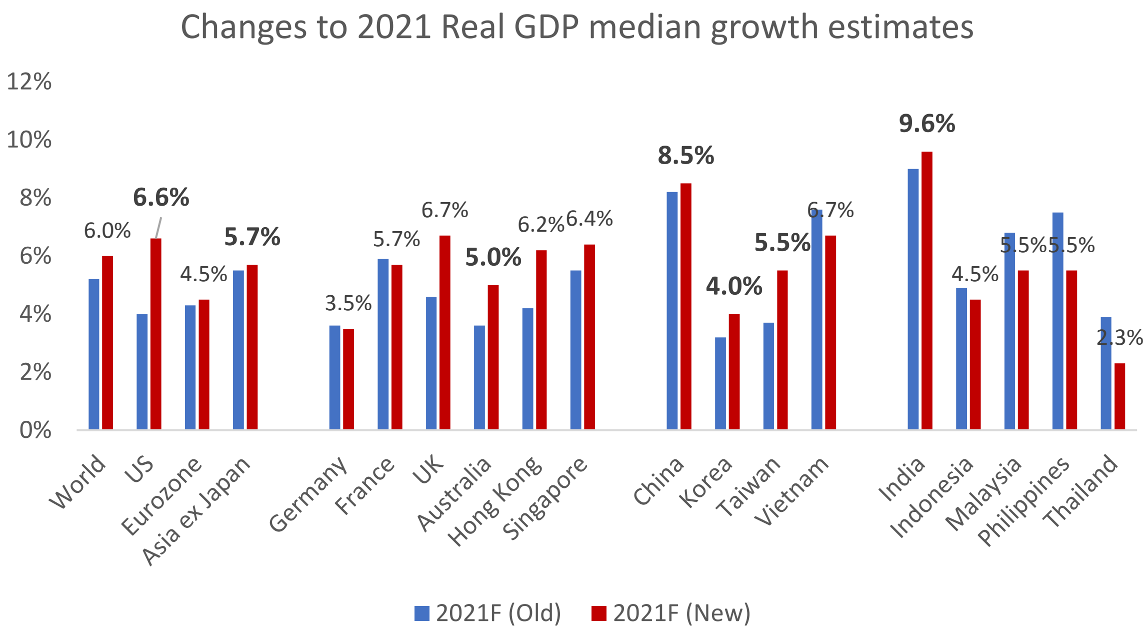
The chart below shows US Business Price Reports from the Institute for Supply Management, plotted against Producer Price Inflation for Finished goods, with a 6-month lag. The lag is an allowance for the time taken for higher input costs to be reflected in final goods prices.



Sources: Institute for Supply Management, US Bureau of Labor Statistics, Guinness Asset Management

We can see rising producer price inflation (PPI) play out across Asia, Europe and the US. PPI in China and the US is running at about 9% year on year, in Germany it is running at around 7% and in Korea and Thailand at around 6%. Two years ago, in 2019, producer price inflation in May was running between 1% and 3%. There are questions over how persistent this inflation is likely to be and how far it will translate into higher consumer price inflation (CPI). In some positive news, most commodity prices (with the exception of oil) peaked in May and fell back in June.

When looking at the sources of consumer price pressures, most notably the 5% rise in US CPI, it appears that when we exclude energy which accounts for 40% of that increase, more is associated with economic reopening: the 100% increase in the price of used cars, for example, reflects the shortage of new vehicle manufacturing during the COVID pandemic. This is evident too in the supply of household appliances in both Europe and the US which has pushed up the prices of washing machines in the US by 26% year on year. To higher materials prices manufacturing hiatus and low inventories, we can also add supply chain disruptions. Shipping costs have rocketed, as have delays due to disruptions such as the incident in the Suez Canal and the partial closure of Yantian. Supply chains are tight and they are busy; it does not take much for queues of ships to build and for congestion elsewhere to wreak havoc and have significant spillover.



Source: Bloomberg. New estimates as of 30 June 2021

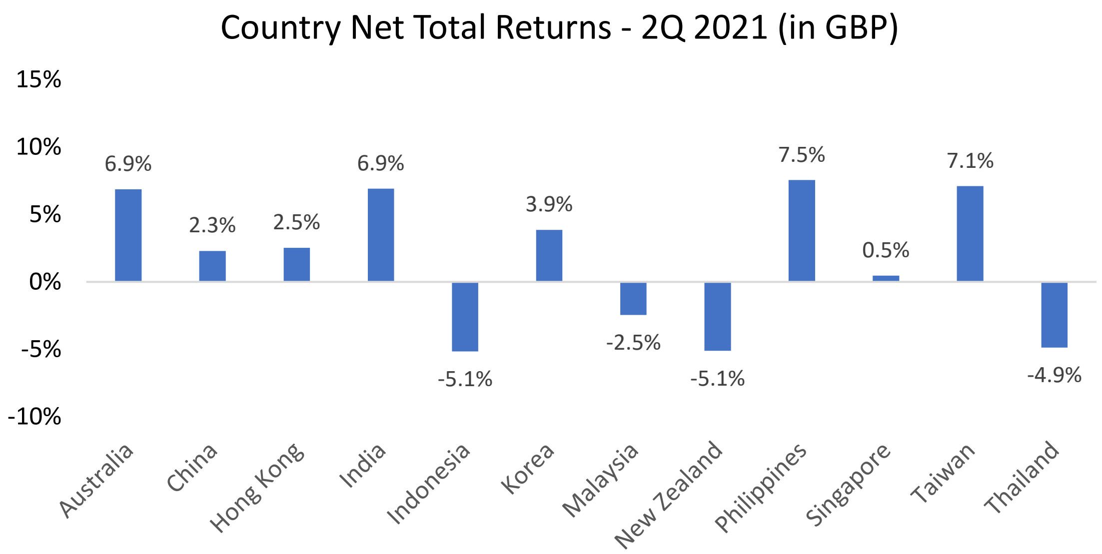
Economic growth forecasts have changed a little since the last quarter. US economic growth estimates been revised higher with the median estimate at 6.6%, up from 5.8% at the end of March. China's growth forecast remains unchanged while that for India has been scaled back from 11% expected at the end of March.

As an aside, but nonetheless important, China is using this period of economic strength to tackle once again company debt accumulation and to force heavily indebted conglomerates to meet their obligations or face restructuring. Criticism of China's debt policies usually reaches a peak when China's economy is stuttering, when the authorities are reluctant to press, and investors are most worried. Renewed efforts on China's part tend to come when growth is strong, when investors appear to be less concerned, and it passes almost unnoticed.

Trade growth remains Asia's biggest growth driver. Chinese trade in the first five months of 2021 is up 29% over the same period in pre-pandemic 2019. Across the region we see trade growth over the same period: Taiwan up 32%, Korea up 9%, Singapore up 13% and Thailand up 7%. It is worth drawing the distinctions between Chinese, Taiwanese and Korean trade. Taiwan is focused heavily on technology components and finished devices. China has great breadth but is still heavily weighted toward mass market, lower cost consumer items, although higher end products have been taking a steadily increasing share. Korea's exports range from high-end steel, to machinery, plant equipment, cars, ships, consumer durables and technology. Car sales act as a good indicator of overall economic health; Korea's trade figures provide a similarly useful guide to world economic health, in our opinion.

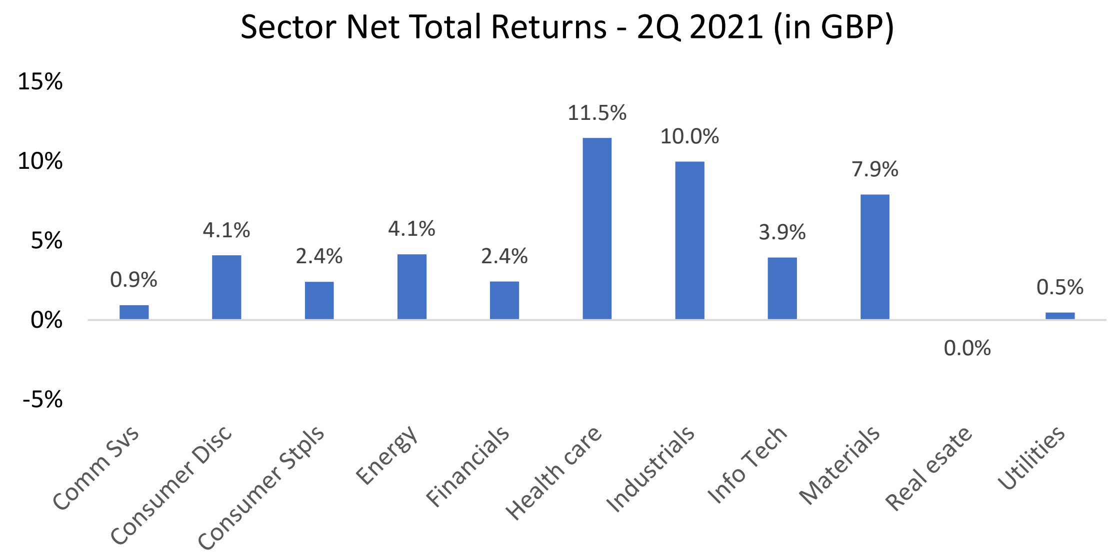
Asian markets review

The majority of the 4.0% increase in Asian markets in the second quarter, as measured by MSCI AC Asia Pacific ex Japan Net return Index, in GBP, came in June with a 3% rise. This was led by China, Korea and Taiwan and mostly by stocks in the Consumer discretionary and industrials sectors which were up 8% and 6.9% respectively, followed by energy which rose 5.1%. The most influential areas on benchmark performance were the growth stocks in China's Consumer discretionary sector, which otherwise have had a subdued quarter. On the weaker side, the 1% decline in Australian materials reflected the pull back in metals prices in June, referred to earlier. The charts below show the country and sector performances over the second quarter: China has been notably weaker while market leadership has been taken up Australia, India, Korea and Taiwan.



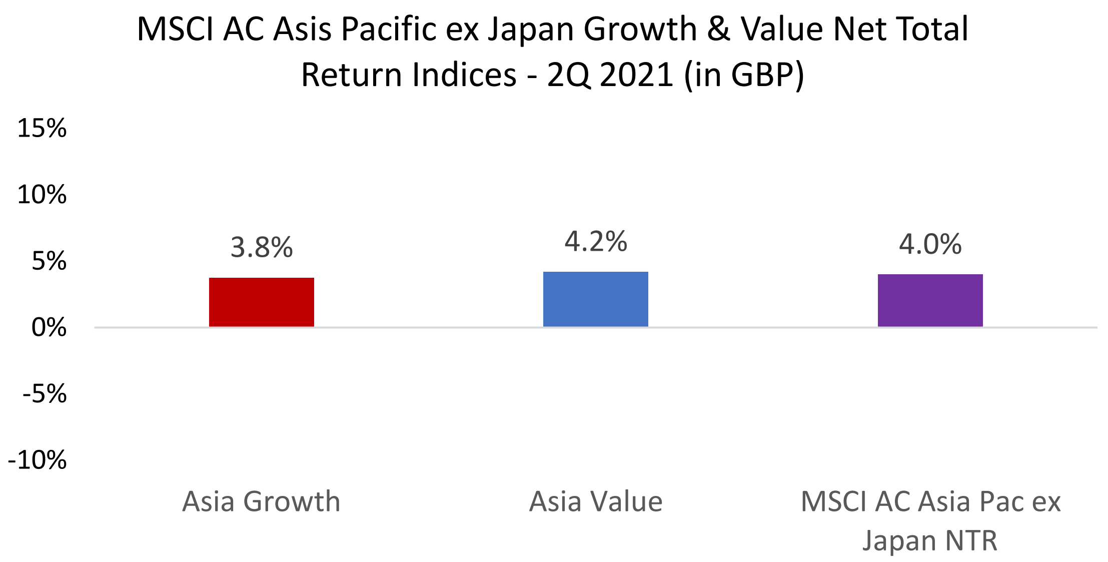
Source: Bloomberg. MSCI Country Index performance data as of 30 June 2021.

The health sector has been led by a broad rebound in China healthcare stocks and by India while Industrials have been led by Taiwan container shipping companies (Evergreen Marine, Wan Hai Lines, Yang Ming Marine). Materials have been driven by primary source companies like the Australian miners although these have faded a bit in June with leadership passing to downstream companies especially steel producers including China Steel in Taiwan and JSW Steel in India and Angang Steel in China.



Source: Bloomberg. MSCI AC Asia Pacific ex Japan sector performance data as of 30 June 2021.

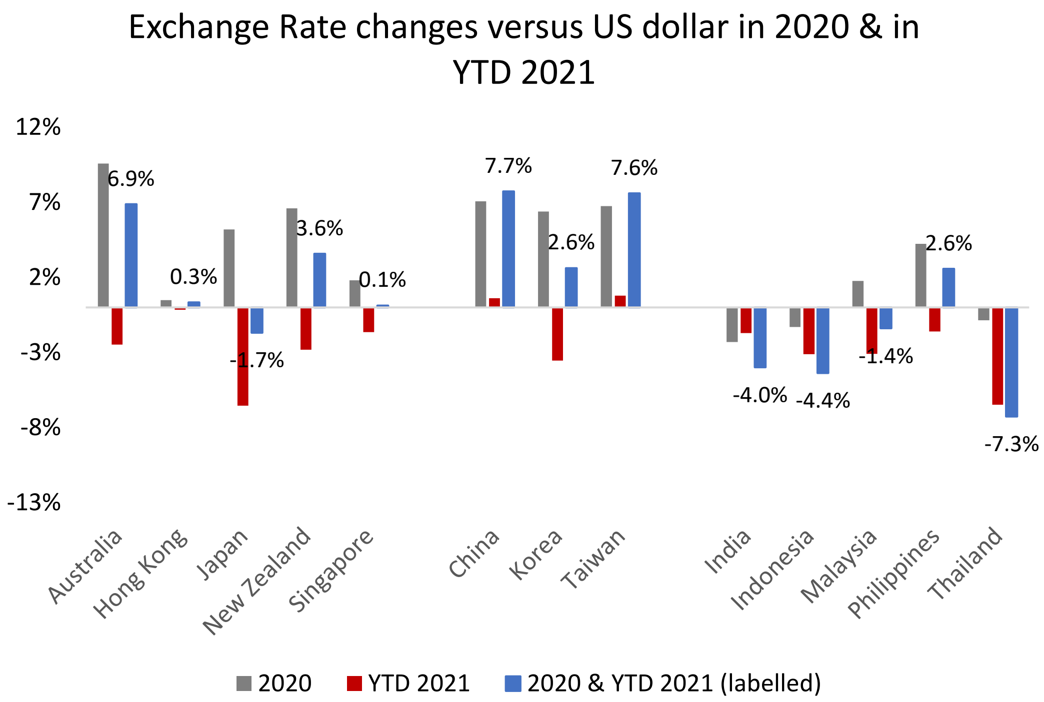
The reversal of Growth's outperformance over Value has been observed across markets and is no less true in Asia. The chart below shows the performance of the two categories as measured by the MSCI AC Asia Pacific ex Japan Growth and Value Net Total Return Indices:



Source: Bloomberg. Data as of 30 June 2021

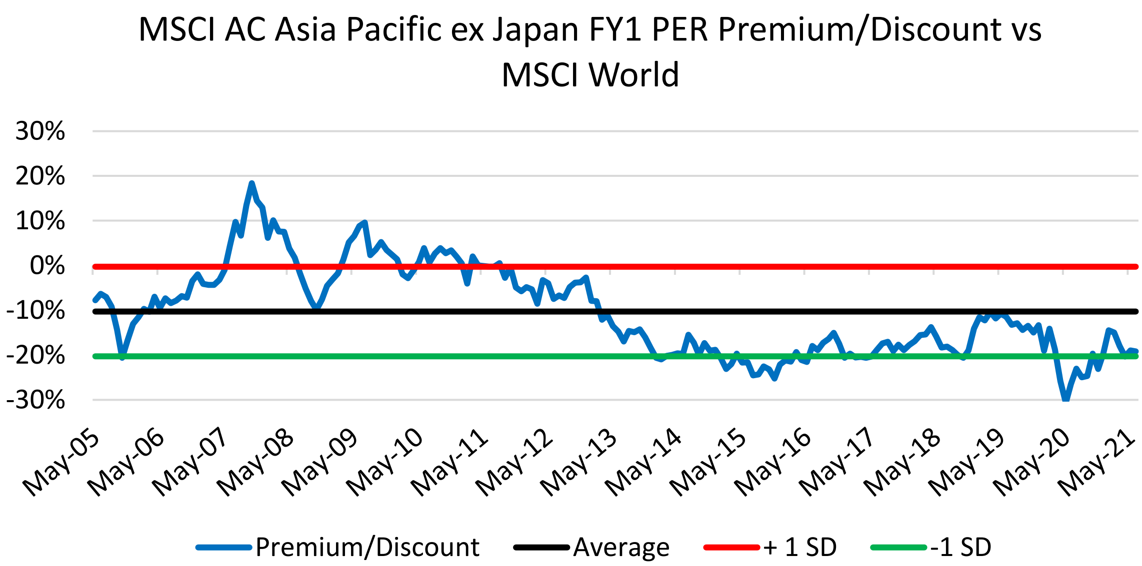
The performance of Asian growth and value indices has been similar over the quarter but, as discussed earlier, growth performance received a significant boost in June.

The chart below shows the behaviour of Asian currencies in 2020, in the first six months of 2021 and over the last 18 months. Asian exchange rates have generally been weaker against the US dollar. We think this is mostly due to expectations of higher interest rates in the US which has pushed dollar strength. We think it is dollar strength rather than fundamental Asian weakness that accounts for the moves. Economies in the region remain, by and large on a sound footing, India and the Philippines excepted. China renminbi has appreciated a little this year and has held on to the gains made last year, as have most of the economies in developed and north Asia.



Source: Bloomberg. Data as of 30 June 2021.

Asian market valuations as measured by the MSCI AC Asia Pacific ex Japan Index are little changed from the end of the first quarter and were trading on 12-month forward Price earnings (PE FY1) multiple of 16.5x consensus estimated earnings and a 24-month forward Price earnings (PE FY2) multiple of 15.0x consensus estimated earnings. The region's PE FY1 valuation discount to the developed world is at the lower end of its range, defined here as one standard deviation either side of the average (+/- 1 SD), which is where statistically, the values fall two thirds of the time:



Sources: Bloomberg consensus earnings estimates, MSCI, Guinness Asset Management. Data as of 30 June 2021

Stocks review

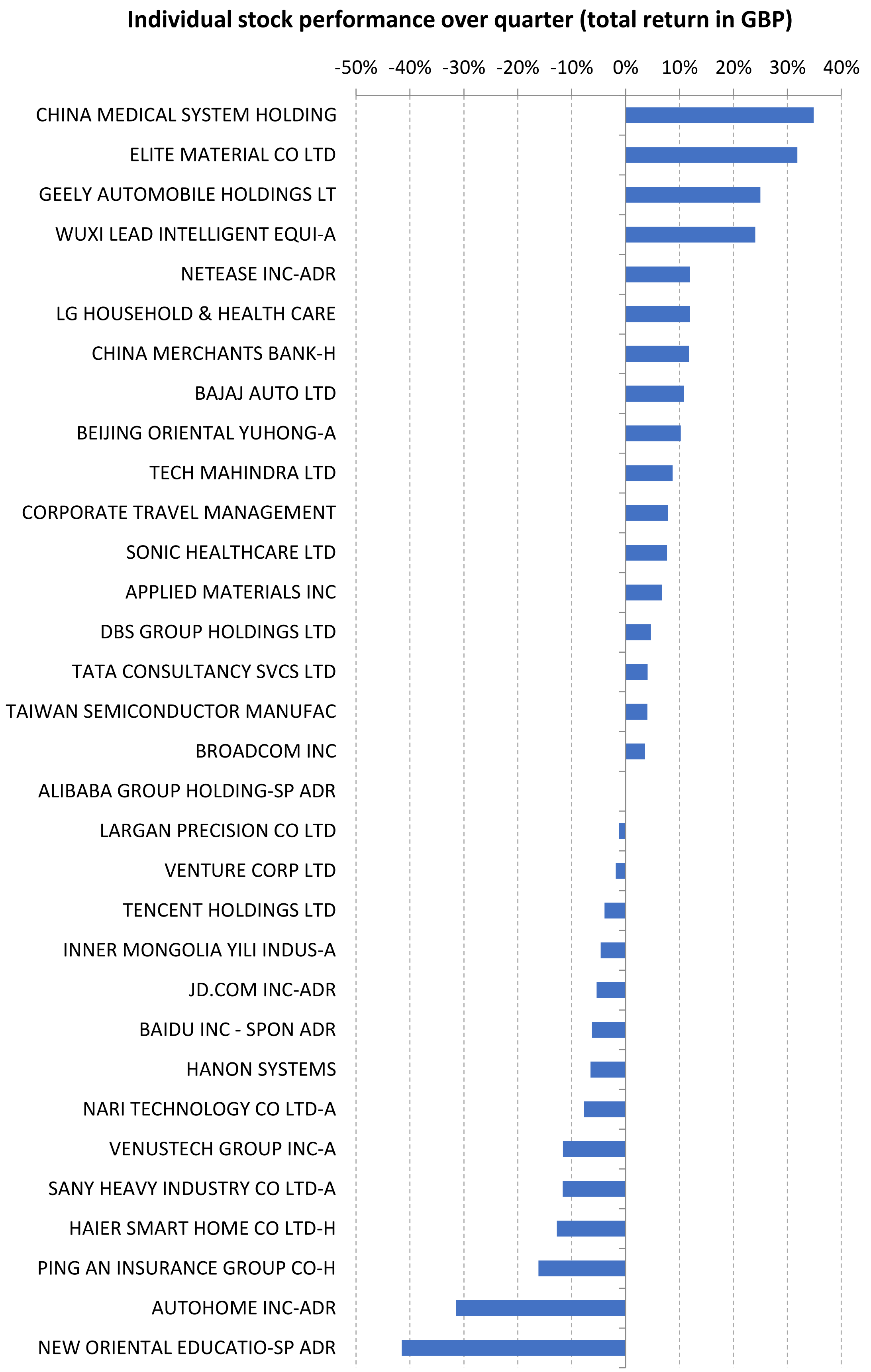
Performance

The Fund's performance was led in the second quarter, as it was in the first, by **China Medical System**, which rose a further 35% in GBP terms. The valuation gap between the return on capital we thought the company would continue generate versus the level implied by the price of the shares continues to narrow. Analysts' estimates call for an interim profit increase for the first half of this year of 22%, following on from an 84% reported increase in the second half of last year.

The second-best performer over the quarter and the year to date, was **Elite Material**. Elite was one of the 3 companies to report an earnings contraction during the quarter and indeed for the first half, but the market consensus has reassessed the company's prospects and after upgrading forecasts is now looking for year on year growth of 30%+ in the coming two quarters. We hold it because of its skills in PCB laminates. Previously the focus has been on mobile phones; the unnoticed advances have come in IT infrastructure (servers, switches and telecom equipment). The prospect of taking a 20%-25% market share in Intel's Whitely server platform is significant, as is the growth in share of high margin 400G network switches used in data centres which provide increased bandwidth/capacity.

The weakest stock in the quarter was **New Oriental Education**. The company's operations delivered 18% earnings growth over the past six months, but the regulatory environment is now changing. The government in China has focused its attention on the after-school tutoring sector and while details are yet to be announced, Reuters has reported the likelihood of restrictions on when such services can be offered. If realised to its fullest extent, the reduction in hours could have a material impact on revenues. Share prices moved very rapidly to price in the worst case on the report, so for now we wait to see what the new regulations will be.

The second-weakest performer was **Autohome**, an e-commerce site for new and used vehicles in China. Earnings rose during the quarter, but only by 3% compared to the same period last year. Over the past two quarters they are only 4% higher than the prior comparable period. The company has been reviewing its 3 to 5-year strategy following the retirement of the Chairman/CEO and his replacement from Ping An Insurance Group came in January. Their plan is to scale back offline insurance and lead generation for smaller dealers as the market is likely to become more concentrated. There is a new focus on e-commerce model for new energy vehicles, greater data management and cross-selling and improvements to domain traffic operations. The restructuring element is likely to weigh, but there is good news in that the core business looks set for a good year with a rebound in the auto-market in 1Q and a rebound in its dealer customer base in April, which should give the company room to refocus.



Sources: Bloomberg, Guinness Asset Management. Data as of 30 June 2021

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Results

Results during the quarter from the rest of the companies to report are below:

- **NARI Technology** reported quarterly earnings substantially higher (300%) above the same period last year. We should not read too much into this since the company's earnings are always heavily tilted in to the second half. The company gives us exposure to the upgrade of China's electricity distribution grid that is a necessary part of the push toward alternative sources of electricity generation. Earnings for the full year are expected to be 25% above last year.
- **Inner Mongolia Yili**, a dairy company, reported a 277% increase in quarterly earnings. We need to take into account the disruptions at the same time last year but when we compare to the same period in 2019, the recent results were still 32% higher. The company has demonstrated pricing power and is a play on rising middle class consumption.
- **Broadcom Inc**'s quarterly earnings were 180% higher than a year ago and 88% higher than the same period in 2019. The company is evolving beyond chip design, in which it remains a major player, into software services following recent acquisitions including Symantec, a software security developer. Reported profits for this year are likely to double those of last year due to acquisitions but continuing operations are still forecast to deliver over 30% growth.
- **Sany Heavy Industry** is a Chinese manufacturer of construction equipment that is developing a significant regional customer base. Quarterly earnings were 178% higher than the same period in 2020 and 60% above the same period in 2019. This is a reflection of China's comparatively swift rebound from COVID. The company has recorded above-industry sales growth and is said to be gaining market rapidly in Indonesia and Thailand, facing off against the likes of Japanese makers, Komatsu and Hitachi.
- **Wuxi Lead Intelligent** is a manufacturer of battery making equipment mainly for those supplying the electric vehicle (EV) market. Quarterly earnings doubled over last year but were flat against 2019. As with Nari Technology, earnings are tilted to the second half. The full year is expected to see Wuxi double its earnings over 2020 and 2019 as EV production and hence, battery demand, accelerates.
- **Applied Materials** is a leading supplier of semiconductor manufacturing equipment. Tight production capacity amongst chip makers that is hampering production of electronic devices and EVs has been well-publicised. The sector is in the process of going through a boom in capital expenditure (TSMC, for example, plans to spend $100 billion over the next five years). Quarterly earnings were up 89% over 2020 and 118% higher than the same period in 2019.
- **Beijing Oriental Yuhong Waterproof Technology** gives us exposure to China's push towards sustainability in the use and conservation of resources. Yuhong benefits from the tightening in regulation on waterproofing materials in terms of both durability and production method (bitumen vs polymer, with the latter being the preferred option). The company is out in front on product quality and shift to polymers-based materials. Quarterly earnings were 74% higher than the same period in 2020; from full year perspective, 2021 profits are likely to 25% higher than 2020 with good prospects for the years ahead.
- **Hanon Systems** reported 72% rebound in quarterly earnings over 2020 (5% above 2019 levels). The company makes cooling equipment for car engines which are designed to improve fuel efficiency and battery life. The specialised nature of its products and the growth in demand from the EV sector, for whom battery life and range are key, put Hanon in a strong position. Near-term earnings have been unexcited but new customers and order growth make its prospects exciting.

- **DBS Group** reported a 72% increase in quarterly profit which reflected the sharp reduction in bad debt provisioning that marked the first quarter of 2020. On a pre-provision basis, earnings were flat. The bank is well capitalised and is building a strong regional presence, most recently with its acquisition of a distressed Indian bank that has significantly boosted its presence in the sub-continent. Overall results for 2021 are forecast to be 32% above 2020 and flat on 2019. At the same time the market is looking for the prudential measures capping dividends to be rolled back soon.
- **Baidu Inc** is China's leading internet search engine business that is diversifying into cloud computing, AI and into smart transport solutions (on the software side). Quarterly earnings were boosted 70% by more aggressive cost controls, especially marketing spend, combined with an improvement in advertising revenue. Revenue is forecast to grow 25% in 2021 and earnings to grow over 40% on margin improvements.
- **Tech Mahindra** is an Indian IT services provider with particular strength in the telecoms industry. The company had a difficult year last year from a revenue perspective, since it could not send its people to customer sites (and hence invoice them) but had a strong year in garnering new orders. The company felt sufficiently confident to double its dividend distribution this year. The most recent quarterly earnings were 39% above 2020, flat against 2019 and are forecast to grow 13% per annum over the next two years.
- **Ping An Insurance** reported quarterly earnings that were 24% above the same period in 2020 but still 15% below the same period pre-pandemic. The company is rationalising its sales force to increase efficiency and at the same time the sector is seeing strength, especially in the life insurance segment. Earnings growth over the next couple of years is expected to average 10% per annum but accelerating through the period and the stock's valuation reflects that.
- **Tawian Semiconductor Manufacturing Co (TSMC)** continues to increase its technological lead over its rivals. Volumes and pricing have remained strong due both to its market dominance and to the shortage of chip supplies. Its plan to spend $100 billion over the next five years will likely strengthen its position further but may also exert some downward pressure on margins in the short term before maximum production is reached. Nevertheless, prospects are good and the company recently reported 22% quarterly earnings growth and a 10% dividend increase.
- **Tencent** grew revenue by 26%. There is strong demand for the company's games, adverts on Weixin/Wechat, fintech and cloud products. However, the company is likely to face some regulatory action by antitrust authorities who are looking to clamp down on anticompetitive practices.
- **JD.com** reported 22% earnings growth in the most recent quarter, which was 2% below the same period in 2019. Competition in China's e-commerce sector is heating up with most leading participants reporting increased investment plans and the prospect of lower margins. The regulatory push to rein in Big Tech in China continues but we expect businesses like JD to continue to thrive, even under closer supervision.
- **NetEase** reported an 18% increase in quarterly profit over 2020, which was also 51% above the same period in 2019. Online game revenue was +11% YoY on a high base, Mobile games rose +15% and the company has 30 new games in the pipeline. NetEase Cloud Music has signed a direct digital distribution partnership with Sony which, following an earlier agreement with Universal Music means they have signed with two out of the big three.
- **Tata Consultancy Services** reported 16% quarterly earnings growth compared to the same periods in 2020 and 2019. Management is guiding for a strong recovery in the Indian business in the coming quarter. Banking, Financial Services and Insurance, which is the largest business segment, grew 19% year on year. The pipeline is also very strong, with record bookings in the first quarter (despite a lack of very large 'mega' deals).

- **China Merchants Bank** is a highly profitable business having developed a significant wealth management business and making substantial investment in technology. As a result it has recorded faster and more stable growth than its peers. Recent quarterly earnings were up 15% on 2020 and up 27% over the same period in 2019. The bank grew earnings by 5% for the full year in 2020 and is forecast by the consensus to grow 16% in 2021 and 15% in 2022.
- **Bajaj Auto** reported 15% EPS growth in the most recent quarter and is forecast to grow by 16% per annum over the next two years. The company has been reporting continued growth in motorcycle sales both in India and in its export markets. In India itself, its primary market is rural based and here, with a good monsoon, spending is expected to increase.
- **Alibaba** reported quarterly results which included the $2.8bn anti-trust fine that pushed the period into loss. The business is still doing well however, with core commerce (86% of revenues) +72% YoY, Cloud computing (9% of revenue) +37%, Digital Media & Entertainment (4%) +35%. However, as referred to with JD.Com, while revenue growth is strong, margins are under pressure under stronger competition and spending requirements.
- **LG Household & Healthcare** reported 1Q21 profit up 10.5% on sales up 7.4%, ahead of expectations. All three of its segments – cosmetics, household & beauty, refreshments - were strong. The stock is perceived as defensive and so has not been a strong performer this year but with earnings growth accelerating (expected to be up 22% this year) we remain positive.
- **Venustech** is a mainland China-listed business which produces cybersecurity software. A recent government draft plans calls for significant expansion of this industry and expects to promote cybersecurity in areas including 5G communications, cloud computing and in key industries including energy, finance and transportation. Recent quarterly earnings were flat but again, earnings are tilted to the second half and full year profits are expected by the consensus to grow almost 40% for the whole year.
- **Largan Precision** reported a quarterly profit contraction of 21% and the consensus expects a 10% contraction for the full year. The company makes high-end camera lenses for smartphones which come at a premium and with smartphone makers trying to squeeze the overall build cost per unit, Largan's lenses are feeling the pinch. Nevertheless, we regard this as a shorter-term issue; the company is still a premium designer and manufacturer and is sticking to that position rather than going down-market. There is substantial cash on the balance sheet which the company is in process of returning to shareholders. A growth recovery is currently forecast for next year.
- **Tencent** reported a 64% increase in quarterly net profit or a 54% contraction if the contribution from investee companies is excluded. Like its China tech peers Baidu, Alibaba, JD.com and Meituan, Tencent is experiencing intensifying competition in e-commerce and video and is likely to respond with increased spending. Bytedance is having a notable impact. Efforts to sustain revenue growth are coming at the expense of margins. The company has largely avoided antitrust issues in e-commerce, but the company announced plans to spend RMB50bn ($7.7bn) on its "social values initiative" in areas such as education.

Portfolio review

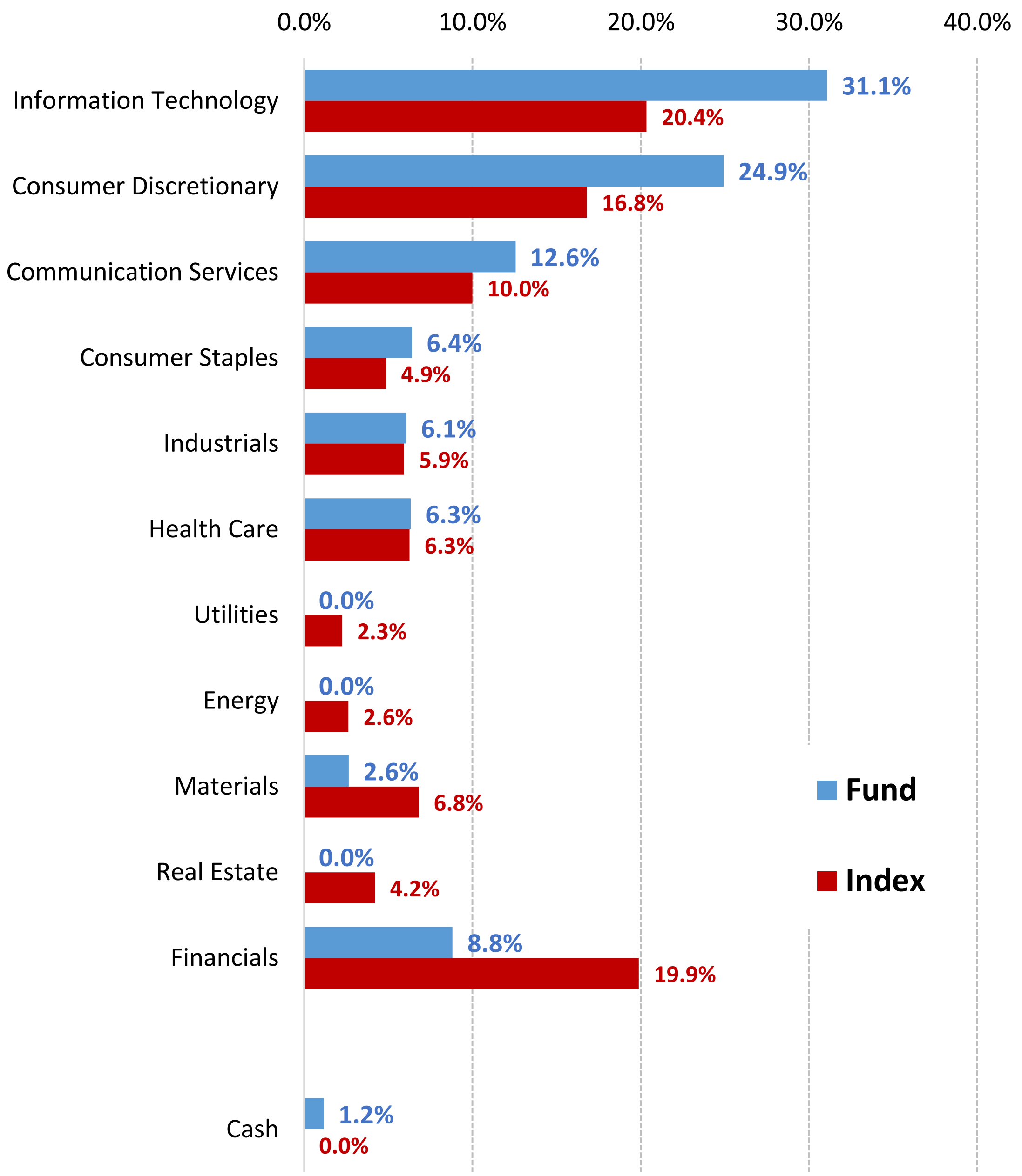
Changes

There were no changes made to the portfolio during the quarter.

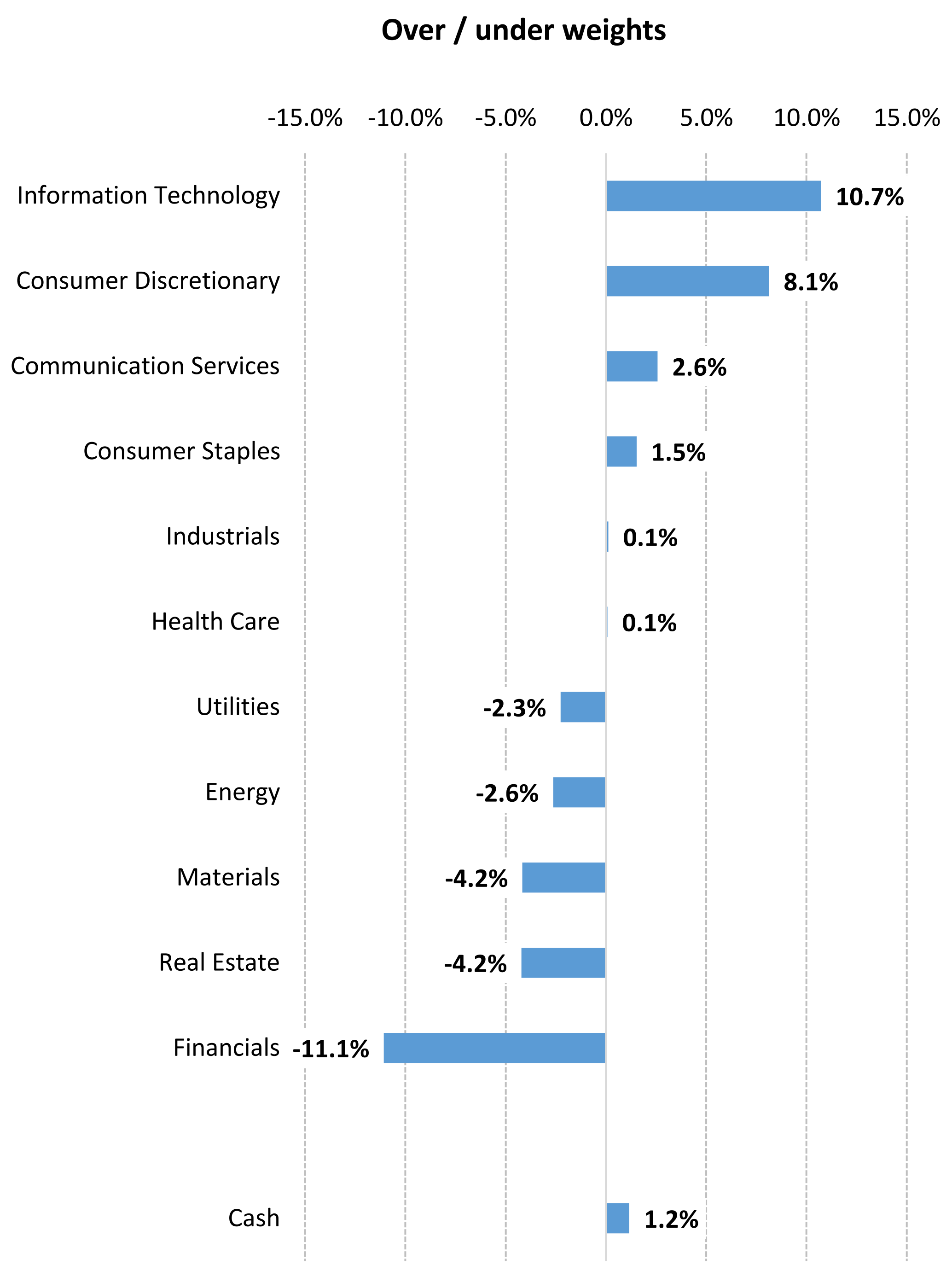
Positioning

At the end of the quarter, the main sector overweights were in Information Technology and Consumer Discretionary while the main underweight was in Financials.

Fund allocation vs MSCI AC Asia Pacific ex Japan Index



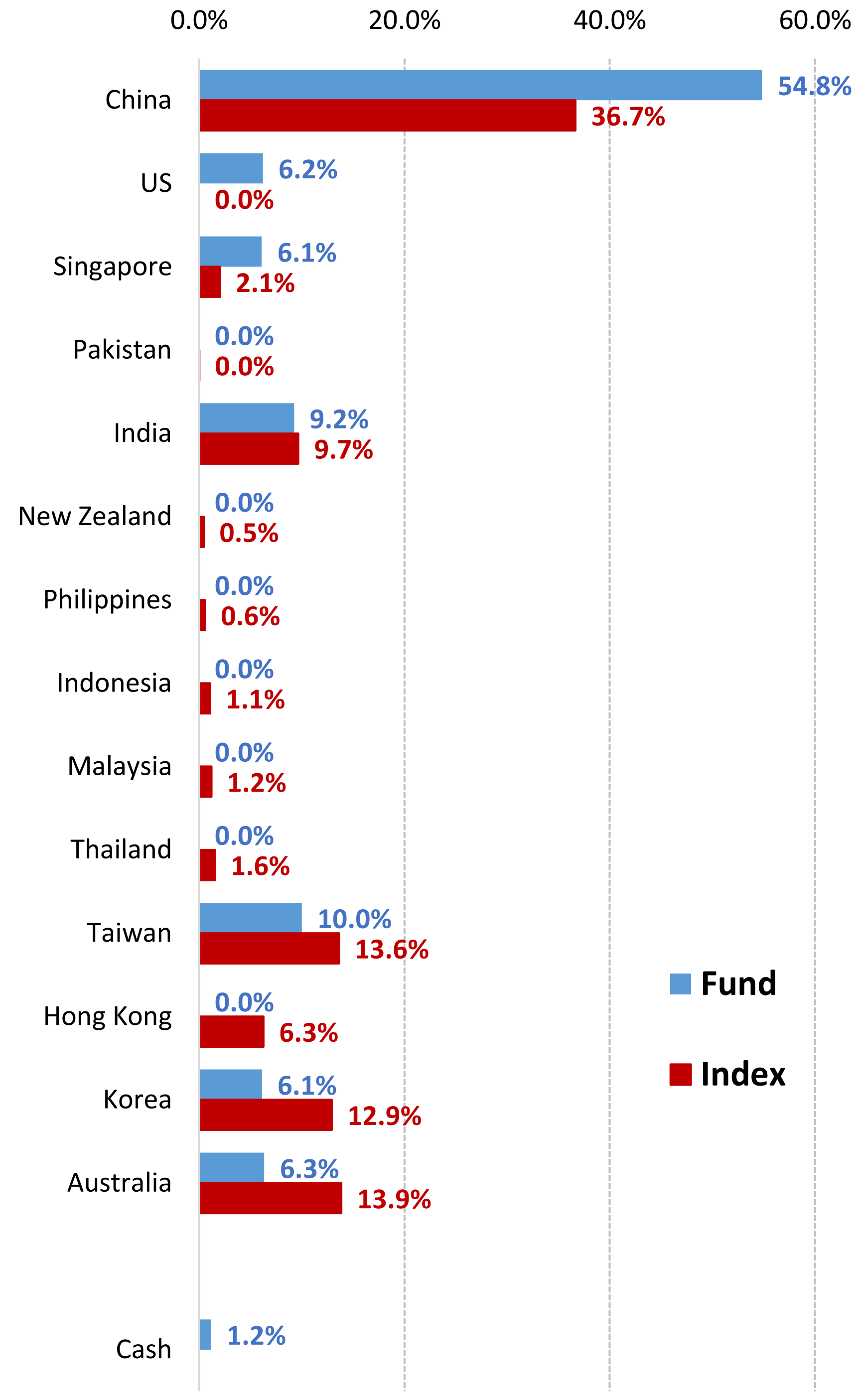
Source: Guinness Asset Management. Data as of 30 June 2021



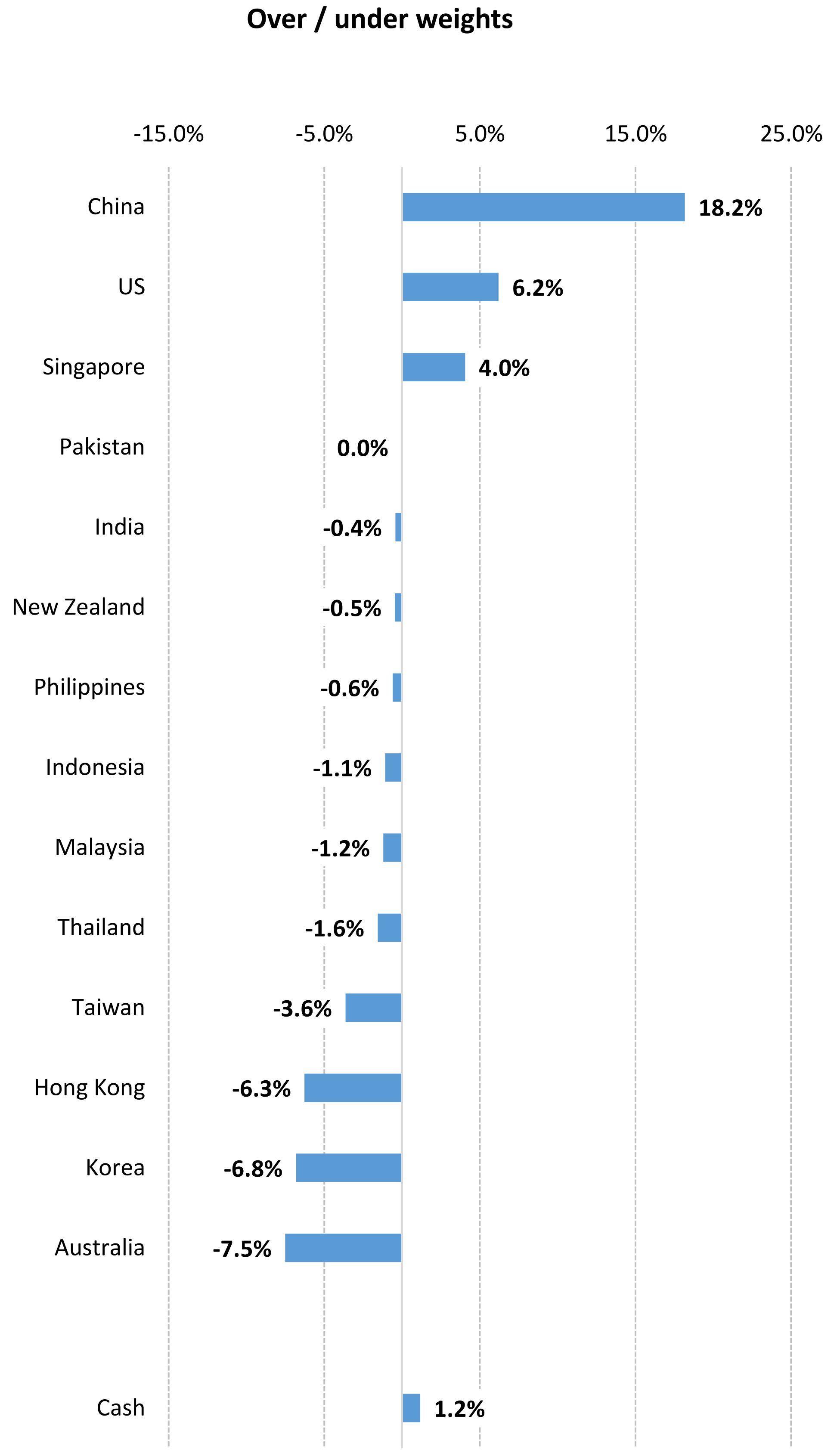
Source: Guinness Asset Management. Data as of 30 June 2021

The Fund's largest exposures are to China, Taiwan, India, Singapore, Australia and the US. The Fund is significantly overweight in China and moderately overweight in the US and Singapore. The US weighting consists of two American companies who derive most of their revenue from the Asia region. The Fund is moderately underweight in Australia and Korea.

Fund allocation vs MSCI AC Asia Pacific ex Japan Index



Source: Guinness Asset Management. Data as of 30 June 2021



Source: Guinness Asset Management. Data as of 30 June 2021

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

Outlook

We think we are moving into an investment environment that is different from that which has prevailed over the past 10 years, and maybe over the last forty years. Big government spending is back in vogue with Keynesian economics gaining ground against the monetarist approach that has dominated in the US. Supply chain re-ordering, trade frictions and higher input costs all put inflation back onto the agenda. Ultra-low interest rates may have to give way in this new world. The focus of our attention is on companies whose operations command higher margins and whose strengths (management, capital base, product line up and internal cash generation) can form a defence against margin erosion.

Our focus remains on companies that show evidence of good management, strong market positioning, with pricing power and strong balance sheets. Consumer behaviour following an exit from pandemic conditions is not certain. Recent jobs data from the US for example showed both strong new jobs creation as one might expect, but it also showed higher unemployment, also as one might expect.

For these reasons we think that an investment strategy based upon strong cash-generative business models to support long-term growth within structural themes has a place in a portfolio.

Edmund Harriss
Mark Hammonds, CFA
Sharukh Malik, CFA
(Portfolio Managers)

Data sources

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

Index and stock data: *Bloomberg*

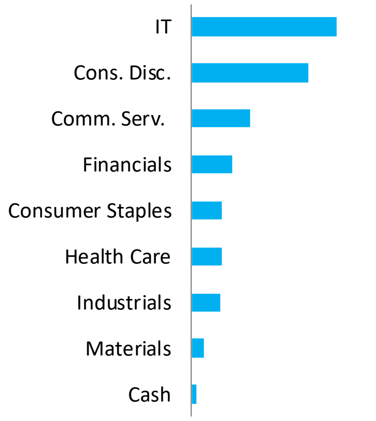
PORTFOLIO

30/06/2021

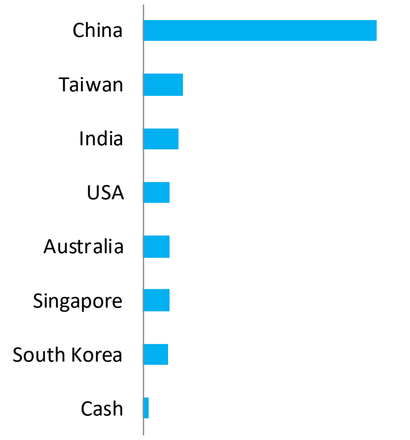
Fund top 10 holdings

Elite Material	3.9%
JD.com	3.6%
Geely Automobile Holdin	3.5%
Baidu	3.4%
Tencent Holdings	3.3%
LG Household & Health C	3.3%
Alibaba Group	3.3%
DBS Group Holdings	3.2%
Corporate Travel Manage	3.2%
China Medical System	3.2%
% of Fund in top 10	34.0%
Total number of stocks	32

Sector analysis



Geographic allocation



PERFORMANCE (see performance notes overleaf)

30/06/2021

Annualised % total return from launch (GBP)

Discrete years % total return (GBP)	Jun '21	Jun '20	Jun '19	Jun '18	Jun '17
Fund (Z class, 0.74% OCF)	39.0	1.6	-3.7	-	-
MSCI AC Asia Pacific ex Japan	24.6	2.7	4.6	7.8	28.6
IA Asia Pacific Excluding Japan	27.1	2.6	4.3	7.5	28.8

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	From launch
Fund (Z class, 0.74% OCF)	2.6	7.7	39.0	36.0	31.4
MSCI AC Asia Pacific ex Japan	2.6	5.7	24.6	33.8	31.0
IA Asia Pacific Excluding Japan	2.3	6.6	27.1	36.0	33.4

RISK ANALYSIS

30/06/2021

Annualised, weekly, from launch on 28.12.2017, in GBP	Index	Sector	Fund
Alpha	0.00	0.00	-0.07
Beta	1.00	1.00	1.10
Information ratio	0.00	0.00	0.06
Maximum drawdown	-20.20	-20.83	-23.96
R squared	1.00	1.00	0.87
Sharpe ratio	0.29	0.35	0.27
Tracking error	0.00	0.00	6.68
Volatility	15.48	14.98	18.29

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. Returns for share classes with a different OCF will vary accordingly

Source: Financial Express, bid to bid, total return (0.74% OCF). Fund launch date: 28.12.2017.

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 Asia 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 Asia 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'Ile, 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.