# Guinness Best of China Fund

## INVESTMENT COMMENTARY – July 2021

| | |
|---|---|
| **Launch date** | **15.12.15** |
| **Team** | **Edmund Harriss** (manager)<br>**Sharukh Malik** (manager)<br>**Mark Hammonds** (analyst) |

### Aim

Guinness Best of China Fund is designed to provide investors with exposure to economic expansion and demographic trends in China and Taiwan.

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

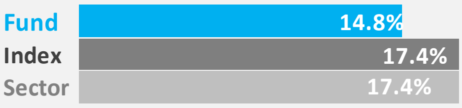
### Performance (in GBP) 30.06.21

| | |
|---|---|
| **Fund** | Best of 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** | 23.7 | 26.6 | 115.1 |
| **Index** | 21.6 | 40.0 | 143.8 |
| **Sector** | 22.4 | 42.8 | 143.4 |

**Annualised % total return from launch (GBP)**




**Risk analysis** (annualised, weekly, from launch)

| | **Index** | **Sector** | **Fund** |
|---|---|---|---|
| **Alpha** | 0.0 | 0.1 | -2.1 |
| **Beta** | 1.0 | 1.0 | 1.0 |
| **Info ratio** | 0.0 | -0.1 | -0.3 |
| **Max drwdn** | -17.8 | -21.7 | -25.7 |
| **Tracking err** | 0.0 | 4.9 | 6.6 |
| **Volatility** | 17.8 | 18.1 | 19.1 |
| **Sharpe ratio** | 0.8 | 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

## Fund & Market

- In the second quarter, the Best of China Fund fell 0.3% (in USD, Z class) while the MSCI Golden Dragon Net Total Return (NTR) Index rose 3.4% and the MSCI China Net Total Return (NTR) Index rose 2.3%.

- In the first six months of the year, the Best of China Fund rose 8.7% while the MSCI Golden Dragon NTR Index rose 6.8% and MSCI China NTR Index rose 1.8%.

- Chinese markets have been volatile after a strong 2020. A strong rally lasted till February, followed by a sell-off which ended in May, and then a mild recovery.

- In the first six months of the year, MSCI China increased 1.8%, MSCI Taiwan increased 18.8% and MSCI Hong Kong increased 10%. The CSI 300 Index increased 2.1%.

- In China, the strongest sectors were Energy (total return of +25.7%), Health Care (+24.4%) and Industrials (+14.3%) while the weakest were Consumer Staples (-5.6%), Information Technology (-4.4%) and Consumer Discretionary (-2.7%).

- In Hong Kong, the Real Estate and Financials indices rose 15.5% and 6.7% respectively.

- In Taiwan, the Information Technology Index, which makes up more than 70% of the local market, rose 16.9%.

- In the Fund, strong performers were China Medical System, China Lesso, Yuhong Waterproof, CSPC Pharmaceutical and Elite Material. Weaker stocks were New Oriental Education, Autohome, Ping An Insurance, Supor and Yili.

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.

# Events in the Second Quarter

- Producer prices were strong, with Producer Price Inflation (PPI) reaching a peak of 9.0% in May. Rising PPI reflected rising global commodity prices but the high rates have been boosted by a low base. As the low base rolls over, it is likely PPI should fall. On the other hand, headline Consumer Price Inflation (CPI) remained low at 1.3% in May and 1.1% in June. Weaker pork prices should continue to offset higher oil prices.

- The stock of total social financing (TSF), a broad measure of credit, grew 11.3% in June which was broadly unchanged compared to May. The PBOC announced a surprise cut in the required reserve ratio (RRR), aiming to again boost credit to SMEs. The PBOC said this cut in the RRR was also driven by underutilised government bond issuance, so the injection in funds should help plug this liquidity gap. We think it is too early to call this an easing of monetary policy as the RRR is only one tool the central bank has available. The use of other tools does not suggest a decisive shift to monetary easing.

- Retail sales in May grew 12.4% which was weaker than expected. The two-year annualised growth in retail sales was 4.5%, which is lower than GDP growth. This reflects that much of the government stimulus has been to boost production rather than consumption.

- There was an outbreak of COVID in Guangdong province, leading to delays in the busy Yantian port. This highlights that even though China has done well to contain COVID, the virus will remain a problem until most of the population is vaccinated. As of June 30th, China had given enough doses to have vaccinated about half of its population.

- 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 increased 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.

# Investment Process

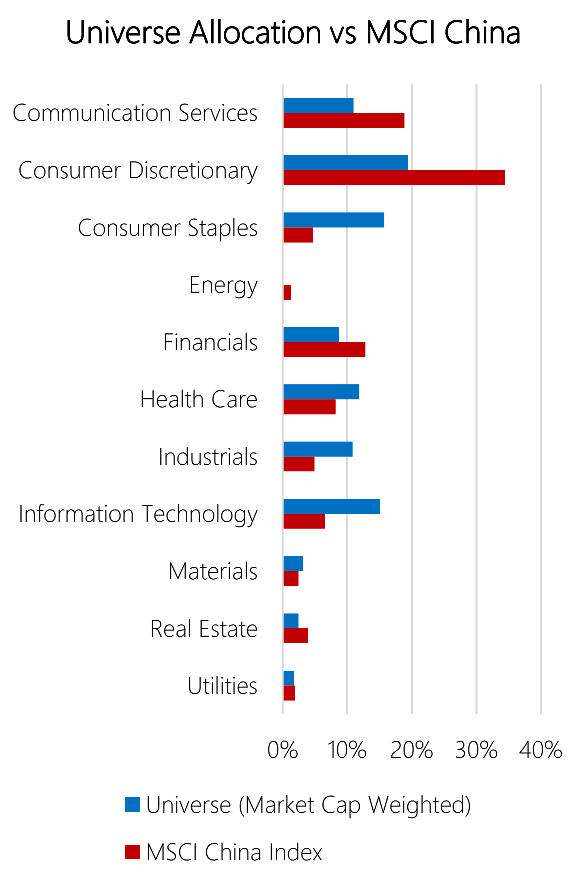
The Fund is designed to give exposure to the seven structural growth themes we have identified in China:

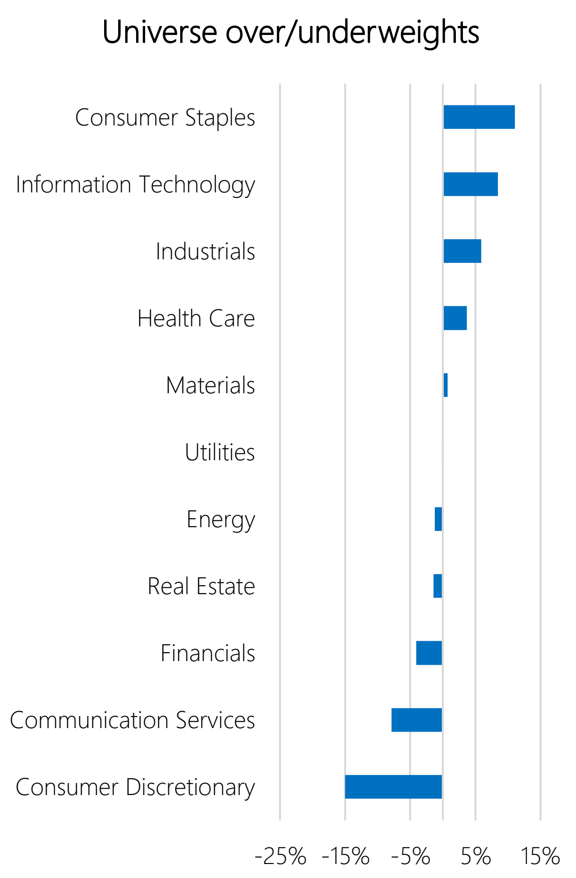
- Rise of the Middle Class
- Sustainability
- Manufacturing Upgrades
- Healthcare
- Cloud Computing & Artificial Intelligence
- Next Gen Consumer
- Financial Services

Once we have identified companies which give exposure to these themes, we also apply a set of quantitative filters to identify quality, profitable companies with strong balance sheets. Quality is defined as a return on capital above the cost of capital while a strong balance sheet is defined as debt/equity less than 150%. These filters reduce the universe from an initial ~1,600 companies to ~800 companies, of which we pick 31 to form an equally weighted portfolio.

The chart below shows the universe's exposure to each theme, on an equally weighted basis. The largest exposures are to the Rise of the Middle Class, Manufacturing Upgrades and Healthcare.

Looking at the more conventional GICS sectors, the universe's largest exposures are to the Consumer Discretionary, Information Technology and Consumer Staples sectors. Compared to MSCI China, the largest overweights are in Consumer Staples and Information Technology, while the largest underweights are in Consumer Discretionary and Communication Services.




**Source: Guinness Asset Management, data as of 30/06/2021.**

We are interested in businesses which have a good structural growth theme to take advantage of, and can translate this opportunity into earnings and cashflow growth. When looking at a company, we break down the financial statements to understand the evolution of the various types of cashflow. We are looking for businesses that can convert their gross cashflow into operating cashflow (which takes into account working capital). Then we look at the uses of cash and the potential returns on these investments – we are looking for businesses that are making good capital allocation decisions. Another important part of the process is to make sure we are comfortable with the accounting decisions the company has made, and that we trust the information shown to us. The next stage is to look into the history of management, and to judge ultimately whether we trust them to run the company well. An ESG review is then conducted to understand the key risks to the company and what management is doing to address them. The final stage is to consider valuations, where ultimately we are looking for companies that can grow earnings by enough to offset a potential valuation derating. Alternatively, we are looking for companies that can grow earnings by enough to offset a moderate increase in discount rates.

This process results in a final portfolio with the following characteristics: compared to MSCI China, the Fund is invested in higher return on capital companies. The Fund's overall net debt/equity figure is negative, meaning in aggregate, the companies in the fund have enough cash to pay off their debt. The portfolio has over the past five years grown sales and earnings by 11% a year. This is better than MSCI China, where there has been very little sales growth and no earnings growth over the same period. The market is expecting the Fund and MSCI China to grow earnings at a similar pace in the next two years. The Fund, on a forward-looking price/earnings basis, is 6% cheaper than the market – despite being invested in higher return on capital companies which have historically grown earnings by much more than the market.

As the Fund is run on an equally weighted basis, it does not have the same stock concentration as MSCI China or other China funds. As there are 31 positions in the Fund, assuming a 1% cash position, each stock has a neutral weight of 3.2%. This limits the stock specific risk in the Fund. This is in contrast to MSCI China, where as of June 30th, Tencent had a weight of 13.4% and Alibaba a weight of 13.3%. These two stocks have done well over the past five years, but given the government's rising attention to large tech stocks, we think it is risky to have so much exposure to two stocks. The Fund's equally weighted process means it is genuinely different to MSCI China, with an active share of 85%.

**Quality**

| | Fund | MSCI China |
|---|---|---|
| CFROI (2021e) | 15% | 10% |
| Return-on-Equity | 22% | 14% |
| Net debt/equity | -19% | 13% |

**Growth**

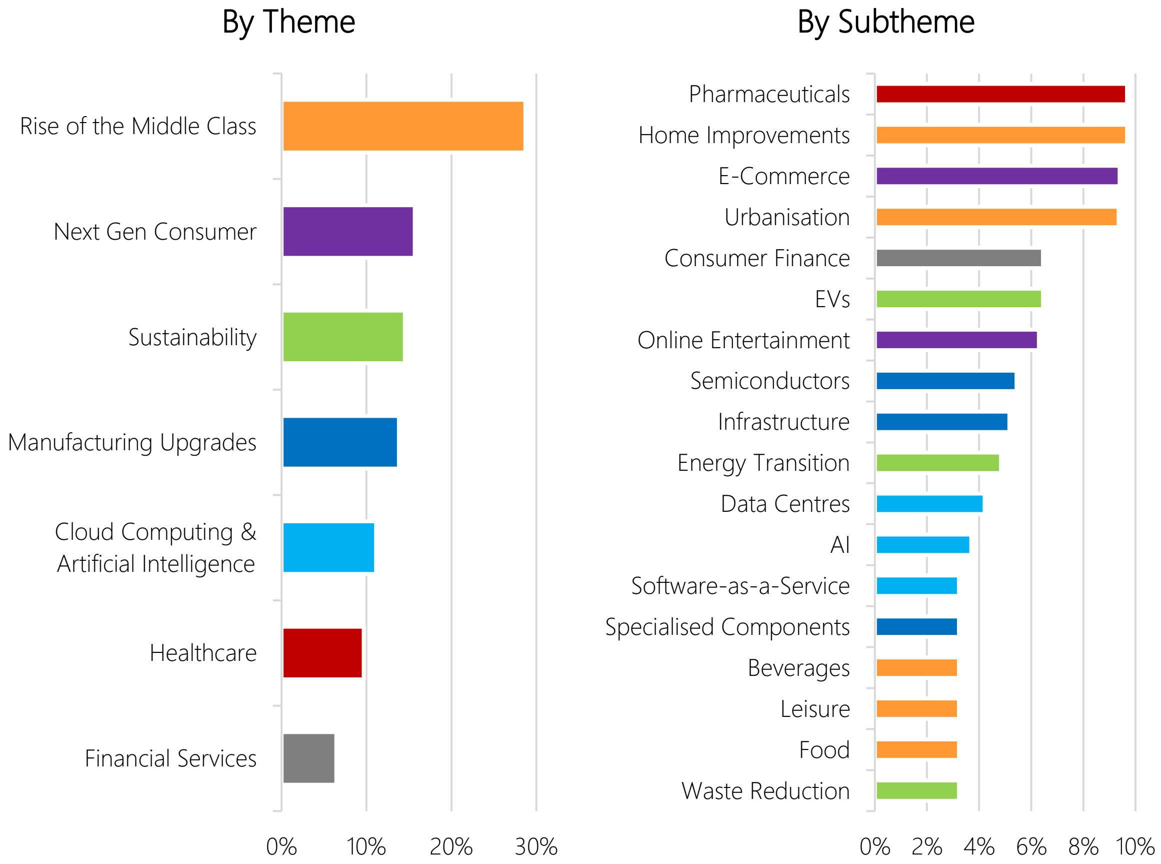
| | Fund | MSCI China |
|---|---|---|
| Sales growth (Historic 5 yr annualised) | 11% | 3% |
| Earnings growth (Historic 5 yr annualised) | 11% | 0% |
| Expected sales growth (2 yr annualised) | 18% | 32% |
| Expected earnings growth (2 yr annualised) | 15% | 17% |
| PE (2022e) | 13.9 | 14.7 |

**Conviction**

| | |
|---|---|
| Positions | 31 |
| Top 10 %NAV | 35% |
| Bottom 10%NAV | 27% |
| Active share | 85% |

**Source: Guinness Asset Management, data as of 30/06/21.**
**Active share relative to iShares MSCI China ETF.**

By theme, the Fund's largest exposure is to the Rise of the Middle Class, followed by the Next Gen Consumer and Sustainability. Important subthemes include Pharmaceuticals, Home Improvements, E-Commerce and Urbanisation.




**Source: Guinness Asset Management, data as of 30/06/2021.**

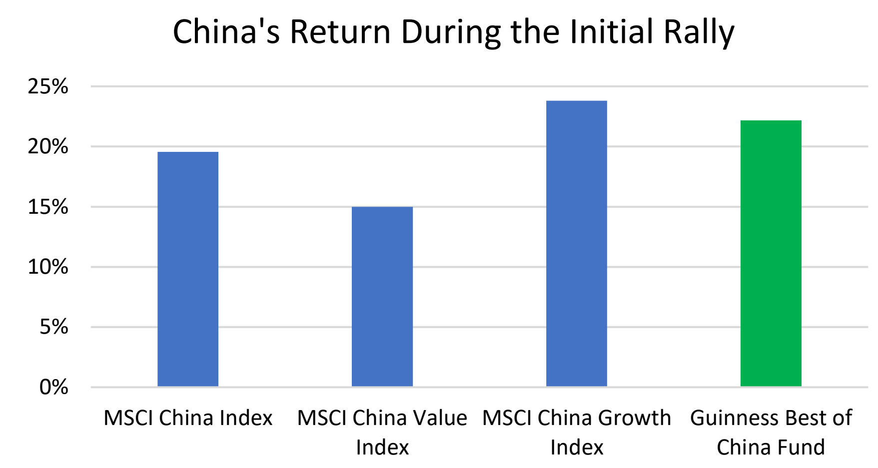
# Portfolio Performance

In the first half of the year, the top and bottom five contributors to relative performance are shown below, with the actual contribution shown in brackets:

| Top 5 Contributors | Top 5 Detractors |
|---|---|
| China Medical System (+3.4%) | New Oriental Education (-1.5%) |
| China Lesso (+1.7%) | Autohome (-1.0%) |
| Yuhong (+1.4%) | Wuxi Biologics (not held) (-0.6%) |
| CSPC Pharmaceutical (+1.2%) | Supor (-0.5%) |
| Novatek Microelectronics (+1.2%) | Li Ning (not held) (-0.4%) |

**Source: Guinness Asset Management, data as of 30/06/2021.**
**Attribution relative to the iShares MSCI China ETF.**

Chinese markets have been volatile this year after a strong 2020. They initially had a strong start, rallying by 19.5% to the peak in February (17/02/21). In this rally, the Fund outperformed MSCI China by 2.6%. Contributors to outperformance included China Medical System, Oriental Yuhong, Novatek Microelectronics and Suofeiya.



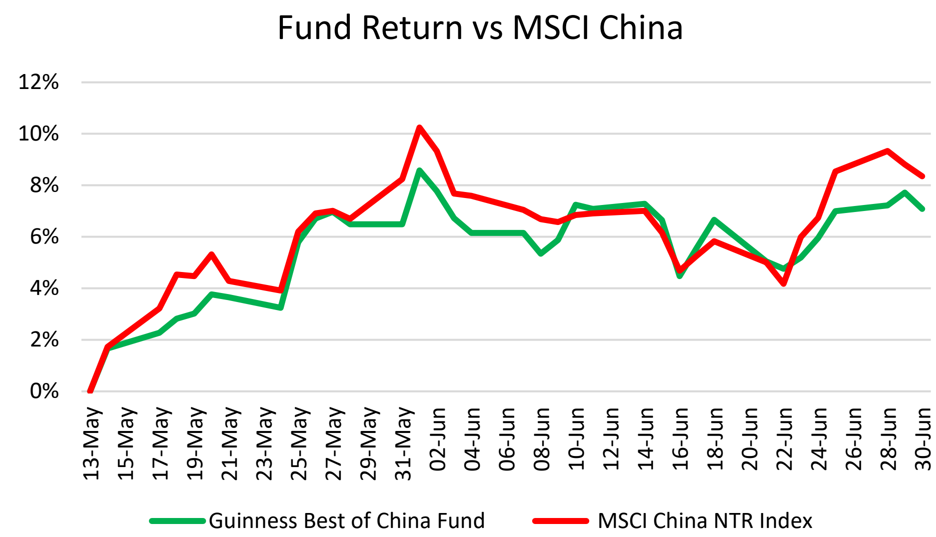

**Source: Guinness Asset Management, Bloomberg. Returns from 31/12/21 to 17/02/21.**

Global markets then sold off, primarily over concerns on rising inflation in the US and so the potential for higher interest rates. Lower monetary stimulus by the PBOC also added to concerns in Chinese markets. The Fund outperformed MSCI China by 5.4% in the sell-off. As the Fund is run on an equally weighted basis, its underweight position in large growth stocks contributed to outperformance. The Fund holds, but is underweight in, Tencent and Alibaba. Meanwhile, not holding Meituan, and to a lesser extent, Pinduoduo and Nio, were also notable contributors to outperformance. Fund holdings CSPC Pharmaceutical, China Medical System and China Lesso also helped the Fund.

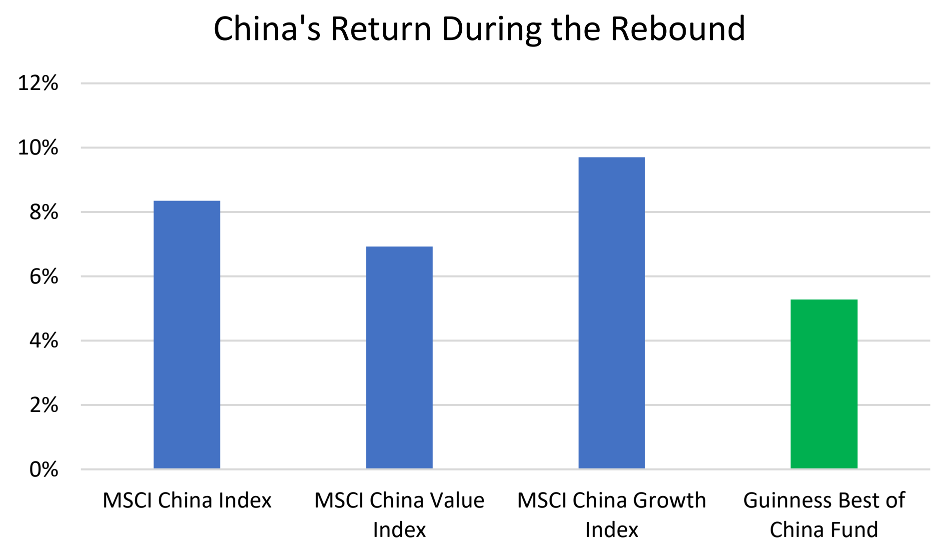
As the Fund invests in companies with exposure to the structural growth themes we have identified, we also find it interesting to compare the Fund against the growth index. In the rally at the beginning of the year, the Fund lagged the growth index by only 1.6%. In the subsequent sell-off, the Fund outperformed the growth index by 11.4%. Our focus on valuations means that when markets sell off due to fears over rising interest rates, we expect the Fund to fall by much less than the Growth index where there are many expensive stocks.


**Source: Guinness Asset Management, Bloomberg. Returns from 17/02/21 to 13/05/21.**

During the rebound which started in the middle of May, the Fund kept pace for the majority of the period, but gave back some relative performance towards the end of June. Contributors to underperformance included Meituan and Nio, which were sources of outperformance in the preceding sell-off. The Fund does not hold Meituan because it has yet to generate a return on capital much higher than the cost of capital, while Nio has yet to achieve even a positive return on capital. The underweight position in Alibaba was another reason why the Fund lagged the market. Fund holding New Oriental was particularly weak due to incoming regulations covering the education sector, while Autohome and Supor were also weak.




**Source: Guinness Asset Management, Bloomberg. Returns from 13/05/21 to 30/06/21.**




**Source: Guinness Asset Management, Bloomberg. Returns from 13/05/21 to 30/06/21.**


**Source: Guinness Asset Management, Bloomberg. Returns from 31/12/20 to 30/06/21.**

Consequently, year-to-date, the Fund is well ahead of the MSCI China and MSCI China Growth indices, as well as the MSCI China Value index.

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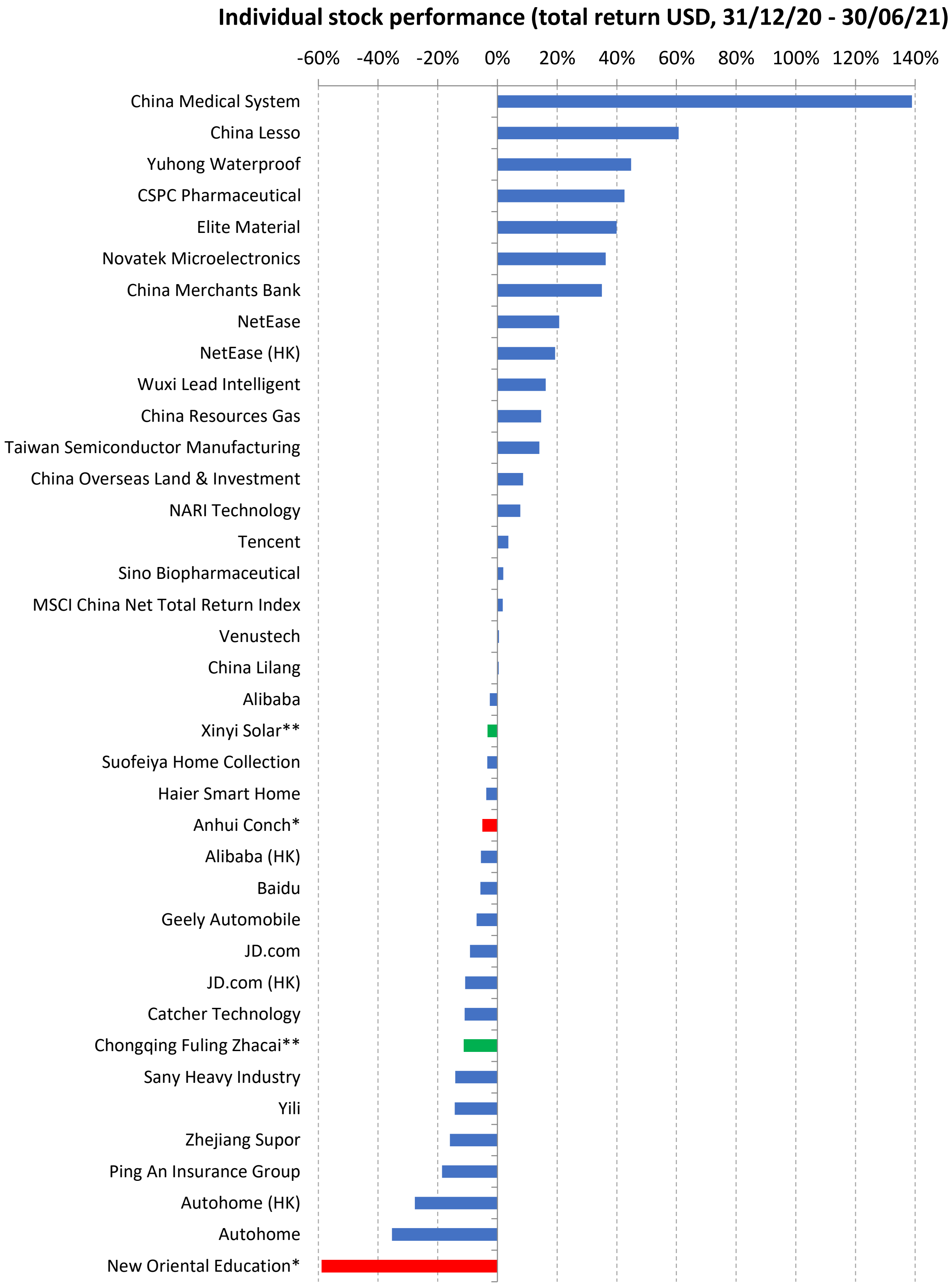
# Stock Performance




**Source: Guinness Asset Management, Bloomberg. * sell, ** buy**

**China Medical System** was by far the strongest stock in the portfolio, rising 139%. The company was historically a contract sales organisation that sold drugs on behalf of foreign companies in China. Its focus was on generics, an area in which the government has initiated significant price cuts to lower overall healthcare costs. As a business dealing exclusively in generics, CMS's share price sold off sharply in 2019 and was weak in 2020. We felt the share price during this period was implying the worst-case scenario so continued to add to the position as part of the Fund's rebalancing process. Over time, CMS has delivered. Price cuts for its generic products have been well below average. The business has signed deals to build its innovative pipeline, where pricing power is much higher compared to generics. In 2020, CMS delivered revenue growth of 14% and EPS growth of 30%.

**Lesso** is China's largest manufacturer of plastic pipes. It has benefited from positive earnings revisions and a valuation rerating. Lesso is expanding its plastic pipes business into the agricultural sector which is a sensible decision, as it is a natural extension of the existing business. Potential applications include irrigation systems and marine aquaculture. Lesso is also expanding its overseas business as it is building a new production base in Indonesia and is planning another for Cambodia.

**Yuhong** is a manufacturer of waterproofing materials. Like Lesso, it has also benefited from positive earnings revisions and a valuation rerating. Water leakages remain a significant problem in China and building standards should become stricter over time, entrenching Yuhong's strong position.

**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 in the first year, which would be a good outcome. 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 earnings in the future. CSPC also signed a deal with KeyMed Bioscience to sell 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.

**Elite Material** is a manufacturer of environmentally friendly laminates, which are ultimately used in printed circuit boards. We expect the company to be able to pass on rising copper prices onto its customers, which should preserve margins. The company is gradually gaining market share in the server market, which should help it diversify away from smartphones.

**New Oriental Education** was the weakest stock in the portfolio and was sold for reasons explained in the next section.

**Autohome** is China's largest online platform for car dealerships. The stock was very strong in the rally in the beginning of the year but has since been one of the weaker positions in the portfolio. New car sales growth slowed from 69% in the first quarter, to 12% in April and then turned negative in May. Management attribute this to delays in supply arising from the broader chip shortage. Whether looking at trailing or forward looking price/earnings ratios, the stock is trading at its lowest valuation since 2016. We think the valuation is too low for a growing, high return on capital business.

Other weaker stocks were **Ping An Insurance**, **Supor** and **Yili**. Earnings revisions for all three have broadly been flat this year and so they have suffered from valuation deratings. But overall, we do not think the investment case for any of the three has changed. All three managed to increase their asset base in 2020 while doing so at a high return on capital, which is value accretive.

# Stock Switches

**Anhui Conch Cement** was sold as it is difficult to argue, with confidence, that earnings will meaningfully increase in the medium term. The long-term growth driver for the cement industry is ultimately driven by real estate and infrastructure and at least in the case of infrastructure, there are better names available such as Yuhong which is held in the fund. Conch Cement is a consolidator but is ultimately a price taker in the cement industry, and so has limited pricing power.

**New Oriental Education** was sold after it became much likelier that the government would ban weekend and holiday tuition. These periods are significant revenue contributors, and we think that if the ban is to come into effect, there is only so much the company can do. In our view, a limited amount of classes can be shifted to weekdays but the government seems intent on reducing students' workload. Earnings growth over the next few years seemed unlikely and so the position was sold.

We bought **Xinyi Solar**, which is the world's largest manufacturer of solar glass and so through its economies of scale, benefits as the low-cost producer in the industry. However its competitive advantage is not solely a function of its scale. The quality of Xinyi's glass is high relative to its peers, so the company is well trusted by its clients. This is very important given the rising popularity of bifacial panels which need thinner and so more durable glass. Tighter emissions standards also raise the cost of production, as well as the barriers to entry, protecting incumbents such as Xinyi. We believe that the company can grow earnings by enough to offset mean reversion in the valuation multiple. Policymakers in all major regions around the world are aiming to significantly increase investment into renewable energy sources which should bode well for Xinyi.

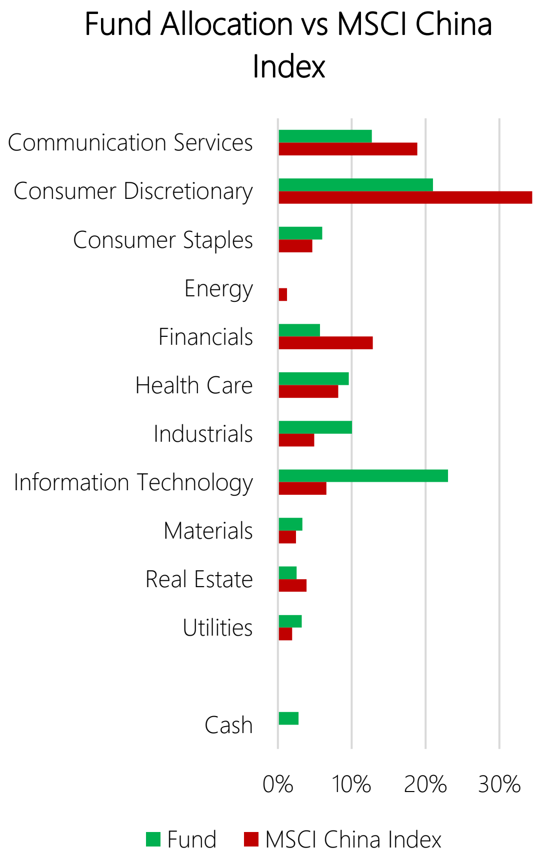
We bought **Fuling Zhaca**i, a condiment company focused on the production of zhacai and paocai. Zhacai is made using mustard roots and is commonly eaten with rice and buns. Fuling Zhacai has a long history of manufacturing zhacai and has a market share of 36%. 28% of sales are from the South where the company is based, but there is a fairly even split between the other major regions of China. Fuling Zhacai has been able to pass on cost increases to its customers which is a strong indicator of its pricing power, allowing the company to earn a high return on capital over time.

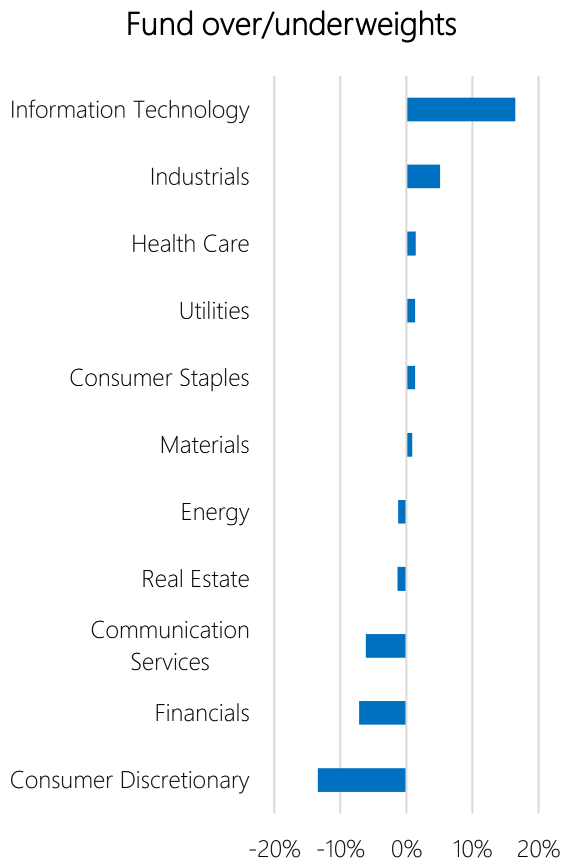
# Portfolio Position

On a sector basis, the Fund's largest exposures are to Information Technology (IT), Consumer Discretionary and Communication Services. Relative to MSCI China, the Fund is significantly overweight in IT and significantly underweight in Consumer Discretionary. On the surface, the fund's IT weight is high but within this group of companies there are completely different businesses whose operations are unrelated. Based on the classifications below, we believe our IT holdings are well diversified.

- Cybersecurity – Venustech, one of China's largest provider of cybersecurity services.
- EV equipment – Lead Intelligent. Supplier of winding equipment used to build out EV plants.
- Solar – Xinyi Solar. World's largest supplier of glass used in solar panels.
- Semiconductors – TSMC (foundry) and Novatek (display and touch drivers).

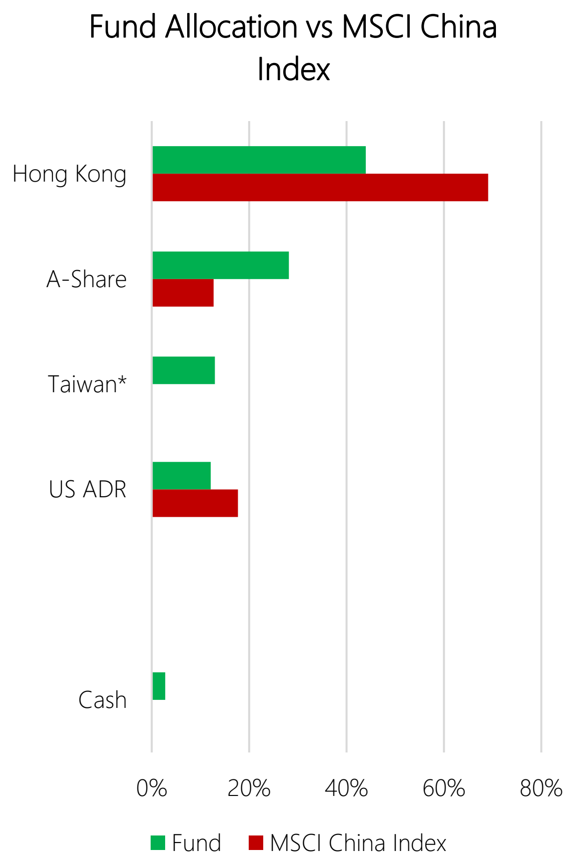
- Of the two remaining names, Elite Material has exposure to smartphones and increasingly servers. Catcher Technology has exposure to consumer demand for laptops.

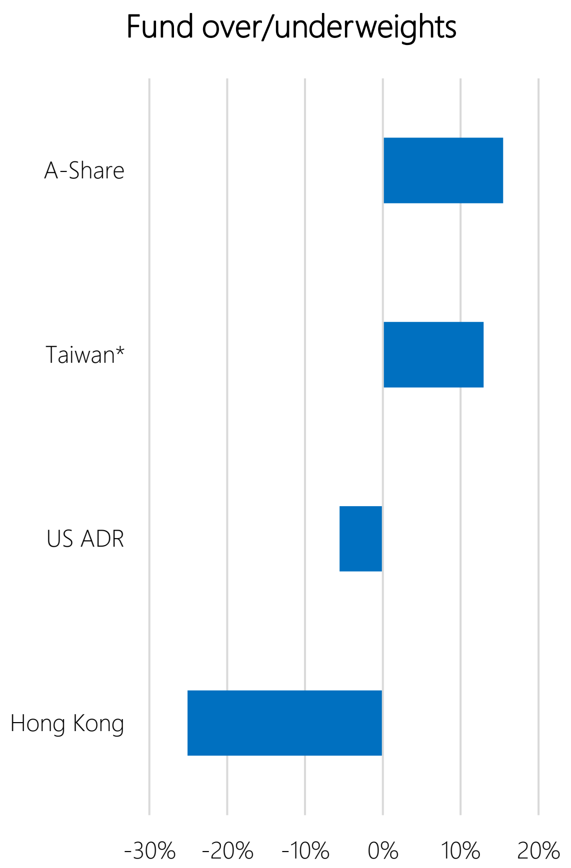



**Source: Guinness Asset Management, data as of 30/06/2021.**

On a listing basis, the Fund has 28% exposure to the A share market and a small 13% allocation to Taiwan. We ultimately care about total shareholder return and though we look at performance relative to China, we are giving ourselves the option of allocating to Taiwan. There are times when the markets in Hong Kong and in the mainland can become very expensive, and having the option of holding Taiwanese names with exposure to the broader region is a useful option. To ensure that the Fund's performance reflects that of China, we are limiting the Fund's exposure to Taiwan to 20%. Furthermore, the Taiwanese companies in the Fund should derive at least 50% of their revenue from China or have at least 50% of their assets in China.




**Source: Guinness Asset Management, data as of 30/06/2021.**

## Summary view & outlook

We believe the Fund's equally weighted approach should help limit stock specific risk. This is important given the government's increased attention towards online technology companies' operations. Earlier in the year, Alibaba was fined $2.8bn for promoting "forced exclusivity", which meant vendors on its platform could not sell their goods on other platforms. More generally, the government has been tightening up antitrust measures, which is an important issue globally. In July, Didi, which acquired Uber's China operations, had its app removed from the various app stores days after it listed in the US. The justification from the government was that Didi did not have sufficient control over the personal information of its users. The government is likely concerned about potentially sensitive information flowing through to foreign entities, as Didi is listed in the US. We may be entering a phase where regulations mean the internet tech companies' growth rates significantly slow down.

We argue that the Fund has diversified exposure to the various, long-term structural growth themes present in China. The online technology stocks come under the theme Next Gen consumer, which only accounts for 16% of the Fund. This means 84% of the Fund has exposure to other themes, such as the Rise of the Middle Class, encapsulating Home Improvements, Urbanisation, Beverages, Leisure and Food. Another theme is Sustainability, encapsulating Electric Vehicles, Energy Transition and Waste Reduction. Unlike the benchmark, the Fund is not dominated by online technology companies.

In our view, China remains committed to developing and modernising its economy around consumption and key pillars of industry. Some of these pillars include robotics, electric vehicles, power equipment and medical devices. Even though technology businesses are being forced to adapt to new rules, we still expect them to play a significant role in helping China achieve its goals. The digital economy accounts for 40% of China's GDP according to economists from Goldman Sachs, while China Tech/Internet stocks also account for 40% of the region's market capitalisation. This highlights the important role these companies play.

In this evolving environment, our equally weighted approach to portfolio construction helps us deliver meaningful exposure to the online tech stocks but also helps us limit stock specific risk. This stock specific risk is clearly evident in the dominance of a small number of technology stocks in the benchmark index.

**Edmund Harriss** (portfolio manager)
**Sharukh Malik, CFA** (portfolio manager)

**Data sources**

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

Index and stock data: *Bloomberg*

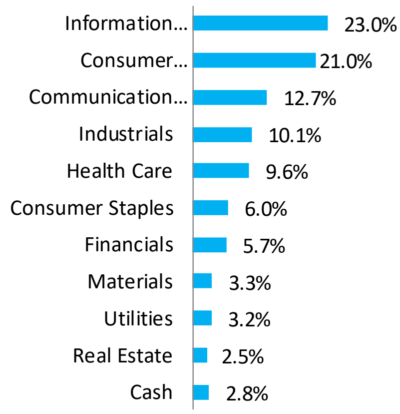
## PORTFOLIO

30/06/2021

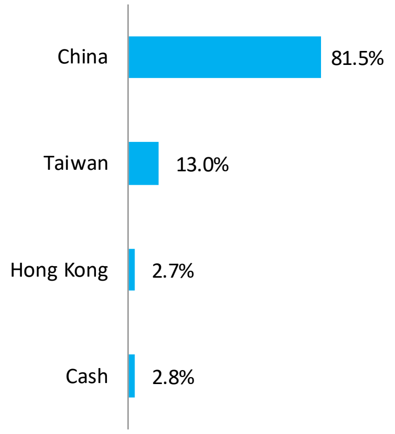
### Fund top 10 holdings

| | |
|---|---|
| Xinyi Solar | 3.8% |
| Elite Material | 3.7% |
| Wuxi Lead Intelligent Equi | 3.6% |
| China Medical System | 3.6% |
| Geely Automobile Holding | 3.6% |
| Baidu | 3.5% |
| China Lesso Group | 3.4% |
| Sany Heavy Industry | 3.4% |
| Beijing Oriental Yuhong | 3.3% |
| CSPC Pharmaceutical Gro | 3.3% |
| % of Fund in top 10 | 35.2% |
| Total number of stocks | 35 |

### Sector analysis




### Geographic allocation




## PERFORMANCE

30/06/2021

**Annualised % total return from launch (GBP)**

| | |
|---|---|
| Fund (Z Class, 0.74% OCF) | 14.8% |
| MSCI Golden Dragon Index | 17.4% |
| IA China/Greater China sector average | 17.4% |

| Discrete years % total return (GBP) | Jun '21 | Jun '20 | Jun '19 | Jun '18 | Jun '17 |
|---|---|---|---|---|---|
| **Fund (Z Class, 0.74% OCF)** | 23.7 | 8.0 | -5.2 | 10.9 | 41.0 |
| MSCI Golden Dragon Index | 21.6 | 13.2 | 1.7 | 12.6 | 34.4 |
| IA China/Greater China sector average | 22.4 | 18.7 | -1.7 | 17.3 | 34.8 |

| Cumulative % total return (GBP) | 1 month | Year-to-date | 1 year | 3 years | 5 years | From launch |
|---|---|---|---|---|---|---|
| **Fund (Z Class, 0.74% OCF)** | 0.6 | 6.9 | 23.7 | 26.6 | 97.8 | 115.1 |
| MSCI Golden Dragon Index | 2.9 | 5.4 | 21.6 | 40.0 | 111.9 | 143.8 |
| IA China/Greater China sector average | 2.4 | 3.5 | 22.4 | 42.8 | 125.8 | 143.4 |

## RISK ANALYSIS

30/06/2021

| Annualised, weekly, from launch on 15.12.15, in GBP | Index | Sector | Fund |
|---|---|---|---|
| Alpha | 0.00 | 0.11 | -2.11 |
| Beta | 1.00 | 0.98 | 1.01 |
| Information ratio | 0.00 | -0.06 | -0.33 |
| Maximum drawdown | -17.78 | -21.67 | -25.74 |
| R squared | 1.00 | 0.93 | 0.88 |
| Sharpe ratio | 0.76 | 0.73 | 0.57 |
| Tracking error | 0.00 | 4.88 | 6.56 |
| Volatility | 17.79 | 18.09 | 19.12 |

**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: 15.12.2015.

# 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'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.