This is a marketing communication. Please refer to the prospectus and KIID for the Fund before making any final investment decisions.

Guinness Best of China Fund

INVESTMENT COMMENTARY – August 2021

Launch date	**15.12.15**
Team	**Edmund Harriss** (manager) **Sharukh Malik** (manager) **Mark Hammonds**

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) 31.07.21

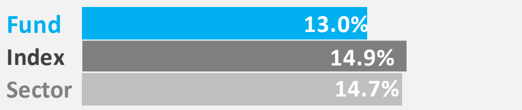
Past performance does not predict future returns

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	10.0	17.9	99.4
Index	5.7	24.8	118.5
Sector	5.4	29.3	116.1

Annualised % total return from launch (GBP)



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0.0	-0.2	-1.5
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	17.9	18.3	19.1
Sharpe ratio	0.6	0.6	0.5

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 July, the Best of China Fund fell 7.3% (in GBP, Z class) while the MSCI Golden Dragon Net Total Return (NTR) Index fell 10.4% and the MSCI China Net Total Return (NTR) Index fell 14.4%.
- Year-to-date, the Best of China Fund has fallen 0.9% (in GBP) while the MSCI Golden Dragon NTR Index has fallen 5.6% and the MSCI China NTR Index has fallen 13.7%.
- In July, MSCI China fell 14.4% (in GBP), MSCI Taiwan fell 2.8% and MSCI Hong Kong fell 3.5%. The CSI 300 Index fell 7.8%.
- In July, MSCI China Value fell 10.2% (in GBP) while MSCI China Growth fell 18.2%.
- In China, the strongest sectors were Materials (total return of +7.0%), Utilities (+3.1%) and Industrials (-6.5%) while the weakest were Real Estate (-22.5%), Communication Services (-18.5%) and Consumer Discretionary (-16.8%).
- In Hong Kong, the Real Estate and Financials indices fell 2.6% and 2.2% respectively.
- In Taiwan, the Information Technology Index, which makes up more than 70% of the local market, fell 1.7%.
- In the Fund, strong performers were Nari Technology, Lead Intelligent, Venustech, Geely and Elite Material. Weaker stocks were Autohome, China Medical System, Suofeiya, Fuling Zhacai and Supor.

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Market Overview

Since February, Chinese markets have had their worst selloff since 2018, with MSCI China falling 30.8% (in GBP, between 17/02/21 and 27/07/21). Government regulations affecting various industries led to a sharp derating in July. We think the government is introducing new rules for several reasons, with the aim of:

- Improving poor corporate behaviour in industries where there has previously been relatively less regulation.
- Reducing social inequality.
- Protecting data security, which is linked to the structure that Chinese companies use to list overseas.

In certain industries, growth has been rapid while government regulation has been lax. This has led to instances of poor corporate behaviour. For example, until recently, Alibaba did not allow vendors on its platforms to sell on other companies' websites. This was clearly not in consumers' best interests. In the food delivery sector, the largest company (Meituan) is not paying all of its workers the minimum wage. The government is now pressing Meituan to ensure it does so, which is in the best interest of labour.

Another related aim is to reduce social inequality. For example, the government is intending for much of the for-profit education sector to turn non-profit. The government is concerned that the gap between richer and poorer students could further increase, given the popularity of after-school tuition services in middle class families. Additionally, expensive tuition is likely to discourage families from having more children, which makes it much harder for China to increase its birth rate.

Data security and the Variable Interest Entity (VIE) structure are another concern. In China, foreigners are not allowed to invest in certain strategic sectors. To allow foreigners to invest in these sectors, the VIE structure was formed. The structure creates an offshore entity which foreigners own, which is typically domiciled in a location such as the Cayman Islands. This offshore entity in turn owns a Wholly Foreign Owned Enterprise (WFOE) in China. This WFOE has a set of agreements with the actual operating company in China – it is this operating company which generates the sales and profits (and in which foreigners cannot directly invest). Usually, the operating company agrees to pay management, technical and service fees to the WFOE, which is allowed under Chinese law. This agreement allows the profits of the operating company to flow through to the WFOE and then the offshore entity, giving foreign investors access to the profits of the underlying operating company.

The status of VIEs under China law is a grey area. Given its widespread use, the Chinese government has not explicitly banned the practice. However, the use of the structure remains a recurring risk for companies that use it. This risk became a reality for the education sector, as in addition to turning much of the sector non-profit, the government also banned the use of the VIE structure. This marked the first time that the VIE structure was explicitly prohibited.

Associated with VIEs is the issue of data security. Didi (the Chinese Uber) listed in the US at the end of June, using the VIE structure. Days after its listing, the company was told to remove its app from app stores, effectively stopping the company from signing up new users. This was due to a cybersecurity investigation, as the government was concerned about the data flow between Didi and offshore entities, which foreigners control. In particular, the government was concerned over potentially sensitive data on the location of government and military sites being shared.

Ever since the Holding Foreign Companies Accountable Act (HFCAA) was passed in Dec-20, we have been very sceptical of Chinese companies deciding to list in the US. The act requires foreign companies that do not comply with American audit standards to eventually delist from American exchanges. Specifically, the act requires the Public Company Accounting Oversight Board (PCAOB) to have access to accounting firms in China, in order to conduct regular inspections and investigations. Chinese law does not allow Chinese audit companies to comply with this request without government authorisation. So far the government has not authorised any cooperation with the PCAOB. Three years of non-compliance with the HFCAA are needed before a delisting, so there is still some time until Chinese companies need to delist. Therefore, given the very low possibility that Chinese companies open their books to American regulators, we find it very odd if a company decides to list on an American exchange in 2021.

In the portfolio, there are five companies that use the VIE structure and are listed on American exchanges: Baidu, JD, Alibaba, Netease and Autohome. In response to the delisting risk, all five companies now have secondary listings in Hong Kong. For these five stocks, we are in the process of shifting exposure away from the US listing and towards the HK listing.

Portfolio Performance

In July, 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
Underweight in Tencent (+2.0%)	Autohome (-0.8%)
Underweight in Alibaba (+1.8%)	China Medical System (-0.8%)
Meituan (not held) (+1.5%)	Suofeiya (-0.7%)
Nari Technology (+1.1%)	Fuling Zhacai (-0.6%)
Lead Intelligent (+1.0%)	Supor (-0.6%)

Source: Guinness Asset Management, data as of 31/07/2021.
Attribution relative to the iShares MSCI China ETF.

In July, the Fund fell 7.3% (in GBP) while the MSCI Golden Dragon NTR Index fell 10.4% and the MSCI China NTR Index fell 14.4%.

During the sell-off led by the online tech companies which lasted three days (22/07/21 – 27/07/21), the Fund fell 8.9% (in GBP) while the MSCI Golden Dragon NTR Index fell 10.6% and the MSCI China NTR Index fell 14.4%.

The Fund’s underweight in the large online tech companies was a significant contributor to outperformance. The Fund is run on an equally weighted basis and so each position has a neutral weight of 3.1%. This is in contrast to the MSCI China Index, where as of June 30 2021, Tencent had a weight of 13.4% and Alibaba had a weight of 13.3%. We think this level of stock specific risk is too high in the index, whereas our equally weighted approach limits the risk to these two companies. As Tencent and Alibaba were two of the weaker stocks in the market, the Fund’s underweight was a source of outperformance.

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The Fund's holdings were also notable contributors to outperformance. Nari Technology and Lead Intelligent are two such examples of this. Nari Technology makes hardware and software used to monitor operating information for the State Grid. The share price was boosted by news that the cap for electricity prices during peak hours is to be boosted by at least 20%. This should theoretically boost revenues for the grid, which should lead to higher procurement budgets, boosting Nari's potential sales.

Lead Intelligent makes equipment used to build out electric vehicle battery plants. It is well known for its winding equipment which packs battery cells together, but is expanding into the earlier stages of the production process. The share prices of companies in the battery supply chain have rallied since the bottom in March, boosted by positive earning revisions as EV sales have been better than expected. Supportive government policies by European and American policymakers have also boosted EV sales forecasts. Furthermore, Lead Intelligent's major customer CATL extended its agreement to supply batteries to Tesla. The market's rotation away from online tech towards growing industries with government support further led to a rally at the end of July.

On the other hand, detractors to performance include Autohome, China Medical System and Suofeiya. Autohome continues to be weak, compounded by brokers cutting their price targets so they are closer to the current price. Autohome is facing more competition from Dongchedi and Bitauto, who are backed by Bytedance and Tencent respectively. The company's valuation multiple is at its lowest level since the company listed and though growth expectations have fallen, we believe the company is too cheap for the growth and profitability it offers.

China Medical System was by far the best-performing stock in the first half of the year, rising 167%. The company historically sold generic drugs on behalf of other firms but is now expanding into the innovative drug market. The share price gave back some of its gains in July on no stock-specific news. We believe even after its rally, the market is still under-pricing the profitability of the company.

Suofeiya makes kitchen cabinets and wardrobes. Its biggest customer is Evergrande which is under pressure to deleverage and so Suofeiya's share price has been weak. Suofeiya's exposure to Evergrande is through overdue receivables and lost income. The company has reduced some of its exposure by exchanging receivables due from Evergrande for a 40% stake in a joint venture between the two companies. Suofeiya now has full control of the venture and can repurpose the assets for other customers. While Suofeiya's earnings are likely to take a hit from Evergrande, it is hardly a disaster. We estimate that in the worst-case scenario, if all Evergrande revenue is lost this year and all receivables due from Evergrande are written off, earnings could fall 7% in 2021. While this is obviously disappointing, this is also not a disaster - the company's balance sheet is strong enough to absorb the hit to earnings. We believe the current share price implies that Suofeiya's return on capital will return to the cost of capital. We regard this as far too pessimistic as lost earnings from Evergrande do not change the company's prospects in 2022, let alone in the medium term.

Stock Switches

We sold Yuhong, a manufacturer of waterproofing materials used in the construction industry. We believe the share price has not yet fully reflected the company's exposure to Evergrande, and therefore took profit on the stock. We still like the company and it remains on our watchlist as Yuhong's balance sheet is strong enough to weather a weaker year.

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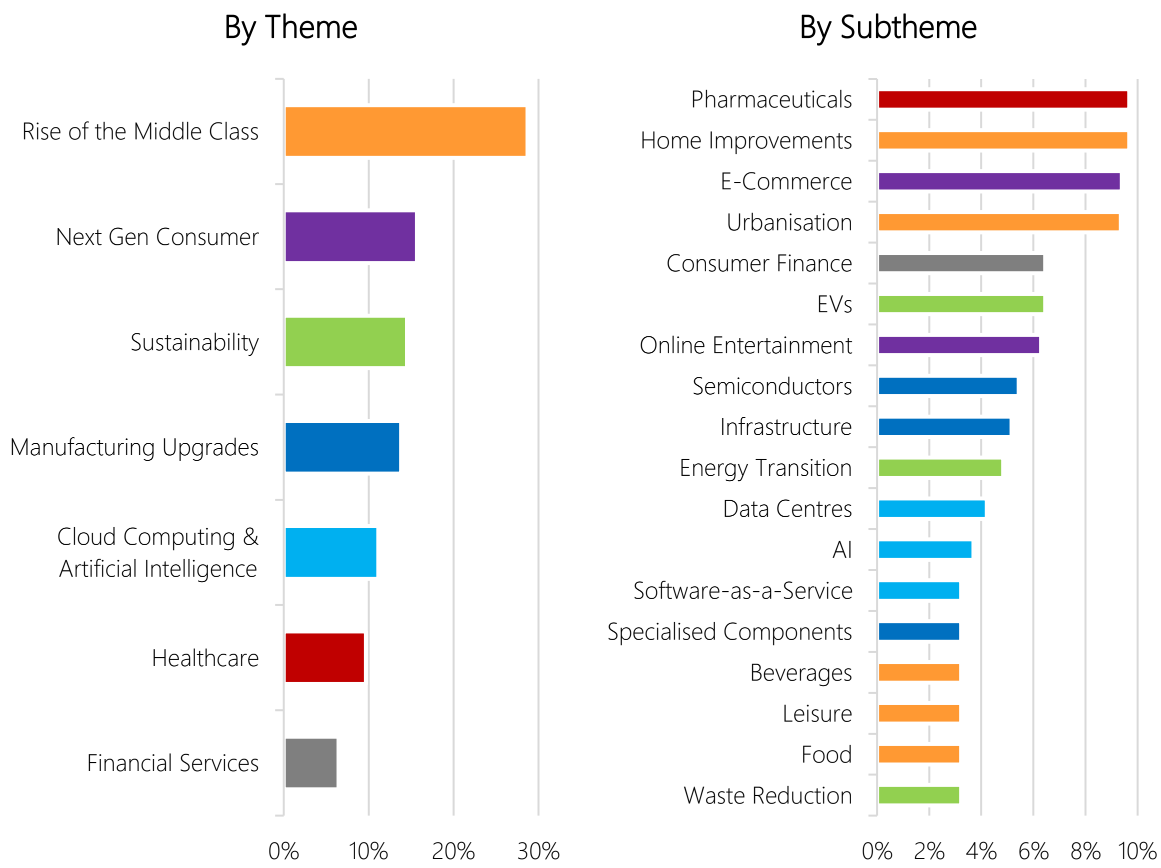
Our decision to sell New Oriental Education in June proved to be a good one. After the government announced the after-school tuition sector would become non-profit, New Oriental's share price fell nearly 70% in two days. Part of the motivation for selling the stock was that tuition has a social element to it, and expensive tuition is likely to be a big obstacle to China's birth rate picking up.

Summary View & Outlook

We believe that despite the government's increased regulatory focus, Chinese markets remain attractive. The online technology stocks affected by regulations come under our 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. The Fund's exposure to the various themes is shown below:



Source: Guinness Asset Management, data as of 31/07/2021.

We believe our approach to investing in companies with exposure to structural growth themes is a sensible approach to investing in China. Additionally, our focus on valuations is important. While there are many interesting companies in China, their share prices often imply perfect execution of the companies' strategy, where there can be no room for error. As the recent regulatory intervention has

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shown, headwinds can appear suddenly and from unlikely sources. We are looking for companies where growth is expected, but where a margin of safety exists so that if we are wrong, the downside is limited.

Edmund Harriss
Sharukh Malik, CFA
Portfolio Managers

Data sources

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

Index and stock data: *Bloomberg*

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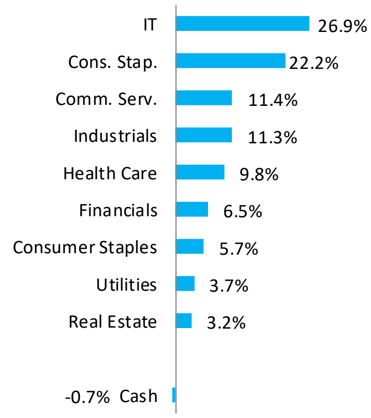
PORTFOLIO

31/07/2021

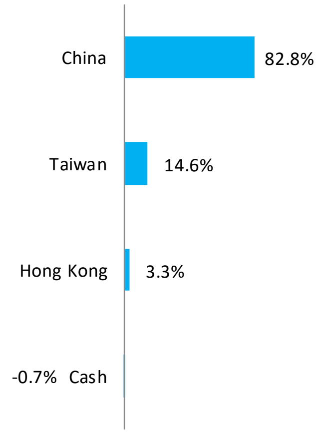
Fund top 10 holdings

Wuxi Lead Intelligent Equipment	5.1%
NARI Technology	4.8%
Geely Automobile Holdings	4.3%
Elite Material	4.2%
Xinyi Solar	4.0%
China Resources Gas Group	3.7%
Novatek Microelectronics	3.6%
CSPC Pharmaceutical Group Ltd	3.4%
Catcher Technology	3.4%
Taiwan Semiconductor	3.4%
% of Fund in top 10	39.9%
Total number of stocks	34

Sector analysis



Geographic allocation



PERFORMANCE

31/07/2021

Past performance does not predict future returns

Annualised % total return from launch (GBP)

Discrete years % total return (GBP)	Jul '21	Jul '20	Jul '19	Jul '18	Jul '17
Fund (Z Class, 0.74% OCF)	10.0	10.1	-2.6	7.1	36.7
MSCI Golden Dragon Index	5.7	12.6	4.8	8.1	33.2
IA China/Greater China sector average	5.4	17.9	4.1	9.7	32.8

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Z Class, 0.74% OCF)	-7.3	-0.9	10.0	17.9	72.5	99.4
MSCI Golden Dragon Index	-10.4	-5.6	5.7	24.8	79.6	118.5
IA China/Greater China sector average	-11.2	-8.1	5.4	29.3	88.3	116.1

RISK ANALYSIS

31/07/2021

Annualised, weekly, from launch on 15.12.15, in GBP	Index	Sector	Fund
Alpha	0.00	-0.19	-1.49
Beta	1.00	0.98	1.00
Information ratio	0.00	-0.11	-0.26
Maximum drawdown	-17.78	-21.67	-25.74
R squared	1.00	0.93	0.88
Sharpe ratio	0.62	0.58	0.48
Tracking error	0.00	4.89	6.60
Volatility	17.94	18.28	19.12

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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 in English from www.guinnessfunds.com or free of charge from:-

- the Manager: Link Fund Manager Solutions (Ireland) Ltd (LFMSI), 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.
- LFMSI, as UCITS Man Co, has the right to terminate the arrangements made for the marketing of funds in accordance with the UCITS Directive.

Investor Rights

A summary of investor rights in English is available here: https://www.linkgroup.eu/policy-statements/irish-management-company/

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

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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.