Guinness Best of China Fund

INVESTMENT COMMENTARY – December 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.

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

Performance (in GBP) 30.11.2021

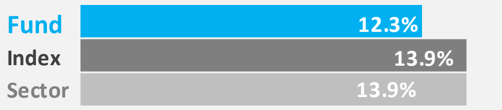
Past performance does not predict future returns

Fund	Best of China Fund (Y Cls, 0.89% OCF)
Index	MSCI Golden Dragon
Sector	IA China/Greater China

	2020	2019	2018
Fund	14.2	25.3	-20.7
Index	24.2	19.0	-9.5
Sector	33.6	22.2	-14.2

	1 year	3 years	From launch
Fund	7.7	36.1	99.9
Index	-4.1	33.6	117.2
Sector	-3.7	43.8	117.5

Annualised % total return from launch (GBP)



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0.0	0.1	-0.7
Beta	1.0	1.0	1.0
Info ratio	0.0	-0.1	-0.2
Max drwdn	-20.6	-23.8	-25.7
Tracking err	0.0	4.9	6.7
Volatility	17.9	18.2	18.9
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 0.89% OCF. Returns for share classes with a different OCF will vary accordingly

Market

- In November, the MSCI China Index fell 6.0% (in USD), MSCI Taiwan rose 2.2% and MSCI Hong Kong fell 5.3%. The CSI 300 Index fell 0.9%.
- MSCI China Value fell 5.6% while MSCI China Growth fell 6.3%.
- In China, the strongest sectors were Industrials (+0.9%), Consumer Staples (-1.5%) and Information Technology (-2.9%), while the weakest were Consumer Discretionary (-10.8%), Energy (-7.8%) and Health Care (-5.4%).
- In Hong Kong, the Real Estate and Financials sectors fell 5.1% and fell 7.4% respectively.
- In Taiwan, the Information Technology sector, which makes up more than 70% of the local market, rose 3.1%.

Events

- The new strain of COVID, Omicron, was identified in South Africa. The new strain seems to spread at a faster rate than the Delta strain, but it is currently unclear if it leads to more serious symptoms. China's zero covid policy, closed borders and past experience in stopping outbreaks means it is likely well placed to deal with the new strain.
- Presidents Xi and Biden held a virtual summit. While no major announcements were made, the summit is a positive sign that China and the US are trying to calm relations. Both stressed the need to avoid conflict, while remaining firm on their views on issues such as Taiwan and Xinjiang.

- During the COP26 climate summit, the two countries unexpectedly announced they would work together to limit temperature increases to 1.5C.

- In November the Caixin manufacturing Purchasing Managers' Index (PMI) fell 0.7 points to 49.9. On the other hand, the NBS PMI, which is geared towards state firms, rose 0.9 points to 50.1. Easing of the power shortages affecting the more energy-intensive industries, which are likely a higher component of the NBS PMI, explain most of the divergence in the two measures in November. Both PMIs showed improving sentiment on output, input prices and exports. However, both PMIs also show weak sentiment on new orders.

Portfolio Performance

It was a weak month for China, with the MSCI China Index falling 6.0% in USD. This was driven by weakness in the tech stocks. Tencent was asked by regulators to temporarily pause releasing new apps and to stop updating existing apps. This was because the company was found to violate data protection rules on four occasions in the past. On this basis all app updates until the end of the year must be reviewed by regulators to make sure they comply with the law.

Alibaba reported weaker results than expected, which reflects the headwinds the business is facing. Though revenues grew 29% year-on-year, the core business, the customer management segment, only grew sales by 3%. In response to government rules lowering the barriers to entry in the industry, Alibaba has effectively had to subsidise some merchants on its platforms, which means revenue growth in this segment is lagging Gross Merchandise Value (GMV) growth. The company is investing to generate growth in other parts of the business, such as by continuing to target lower-tier cities and by growing the group buying and cloud businesses. While these businesses contribute to revenue growth, they are still not material contributors to earnings as they are still building scale, so Alibaba's margins may suffer. The Fund's underweight in Alibaba helps it in periods where Alibaba is weak, as Alibaba is the second-largest constituent of the MSCI China Index. As of 29th October, Alibaba had a weight of 11.5% in the MSCI China Index compared to a neutral weight of only 3.3% in the portfolio.

JD.com reported a better set of results despite being a competitor to Alibaba. Revenue grew 30% and the business continues to gain market share. Sales growth in the electronics and appliance category accelerated as JD takes market share from Suning. JD only has half of the users that Alibaba has, so still has room to grow its customer base in the coming years. The grocery business continues to grow but is still in the expansion phase, and so is not expected to become a material contributor to earnings for a few years. Government efforts to improve competition in the industry are a further tailwind for JD.

Baidu's results came in line with expectations but were still relatively weak. Marketing revenues from the search business grew 6% year-on-year. On the other hand, the cloud business grew revenues 73% but is still a small contributor to the overall business. We continue to hold the business because we think that using a 'sum of the parts' valuation, there is upside in the stock. Baidu's share price has sold off partly due to increased government regulation of the broader industry, but we think it can benefit from certain changes. For example, making content on Tencent's platforms available for Baidu's search engine is a clear positive for Baidu.

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.

Stock Switches

We sold Catcher Technology. The company makes metal casings, which is a competitive industry. Catcher sold its iPhone casings business last year and now is mostly exposed to computers and set-top boxes. The business's return on capital has dipped significantly and it will take years to find the required growth drivers to move it forward. Consequently, after the sale of Catcher, we now own three Taiwanese companies in the portfolio, accounting for c.10% of the Fund. These companies are TSMC, Elite Material and Novatek Microelectronics. While we manage the Fund to capture the growth opportunities in China, we also include certain Taiwanese companies in the universe. These Taiwanese companies can be split into two groups:

1. Taiwanese companies with more than 50% of sales from China or more than 50% of assets in China.

2. Taiwanese companies in the semiconductor chain. While there are semiconductor companies in China, often the quality or the price of the companies can be unattractive. Meanwhile, in Taiwan, there are many good quality growing businesses trading at more reasonable prices. We include these Taiwan semiconductor names to give better valued exposure to the semiconductor industry.

Summary view & outlook

Based on consensus analyst earnings estimates, the fund is trading at 12.5x on 2022 earnings, which is in line with the MSCI China Index. This is despite the Fund being invested in higher-quality businesses, as the Fund's Return on Equity of 22% is well above the market's value of 12%. The Fund is invested in companies which have, in aggregate, grown sales and earnings by 12% and 13% a year over the past five years, compared to 3% and 0% for the market. Based on consensus estimates, the Fund is expected to grow sales and earnings by 19% and 17% a year over the next two years. This puts it a premium to the market's expected values of 12% and 13%. The Fund is run on an equally weighted basis which means its active share, relative to the MSCI China Index, is high at 88%.

We believe for the quality, historic earnings growth and forecast earnings growth that the Fund offers, paying 12.5x on 2022 estimated earnings is an attractive offer. The Fund has limited exposure to the Internet tech stocks which have been weak and subject to greater regulation this year, explaining the Fund's good relative performance year-to-date. Our focus on the structural growth themes in China means we give diversified exposure to growing businesses, which have become gradually cheaper over the year, even though the apathy towards China is not directed towards all of these companies. China is out of favour due to events concerning the more well-known internet and consumer companies, but we think investors are missing the opportunity to invest in less well known but good quality growth stocks in the region trading at attractive prices. The companies we have invested in have proven they can take advantage of their respective structural growth themes, as they have in aggregate grown sales and earnings by 12% and 13% a year, over the past five years. We believe even absent a multiple recovery, the returns from the Fund can be driven from the earnings growth we expect the portfolio to deliver. The market is expecting the portfolio to grow earnings by 17% a year over 2021 and 2022. Assuming markets do eventually assign a higher multiple to China, as they have done over time, this should add to the overall expected return for the Fund.

Edmund Harriss
Sharukh Malik, CFA
Portfolio Managers

Data sources

Fund performance: *Financial Express, total return 0.89% OCF*

Index and stock data: *Bloomberg*

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.

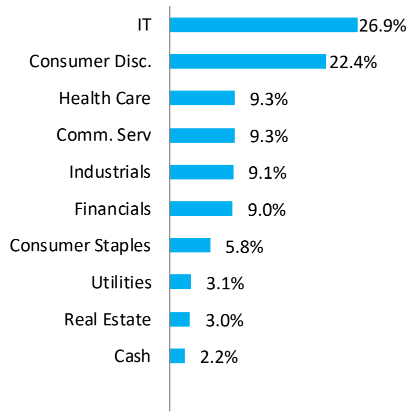
PORTFOLIO

30/11/2021

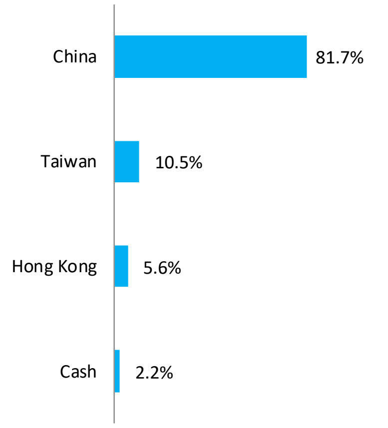
Fund top 10 holdings

Inner Mongolia Yili Industrial	4.1%
Zhejiang Supor	4.0%
China Merchants Bank	3.7%
Elite Material	3.7%
Wuxi Lead Intelligent Equipment	3.6%
JD.com	3.6%
NetEase	3.5%
Chongqing Fuling Zhacai Group	3.4%
Novatek Microelectronics	3.3%
Geely Automobile Holdings	3.3%
% of Fund in top 10	36.3%
Total number of stocks	31

Sector analysis



Geographic allocation

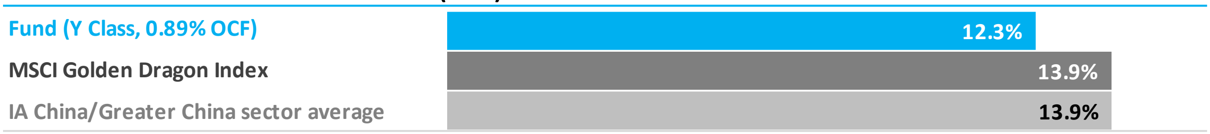


PERFORMANCE

30/11/2021

Past performance does not predict future returns

Annualised % total return from launch (GBP)



Discrete years % total return (GBP)	Nov '21	Nov '20	Nov '19	Nov '18	Nov '17
Fund (Y Class, 0.89% OCF)	7.7	14.7	10.1	-13.3	31.2
MSCI Golden Dragon Index	-4.1	27.5	9.2	-4.1	25.2
IA China/Greater China sector average	-3.7	34.0	11.4	-7.7	27.8

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y Class, 0.89% OCF)	3.4	1.8	7.7	36.1	54.7	99.9
MSCI Golden Dragon Index	-0.3	-6.1	-4.1	33.6	60.3	117.2
IA China/Greater China sector average	-0.6	-7.6	-3.7	43.8	69.6	117.5

RISK ANALYSIS

30/11/2021

Annualised, weekly, from launch on 15.12.15, in GBP	Index	Sector	Fund
Alpha	0.00	0.10	-0.67
Beta	1.00	0.98	0.99
Information ratio	0.00	-0.05	-0.16
Maximum drawdown	-20.57	-23.77	-25.74
R squared	1.00	0.93	0.87
Sharpe ratio	0.57	0.55	0.48
Tracking error	0.00	4.89	6.73
Volatility	17.86	18.15	18.85

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 (0.89% 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

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.