

# Guinness Best of China Fund

Investment Commentary - May 2022



This is a marketing communication. Please refer to the prospectus and KIID for the Fund before making any final investment decisions. The value of an investment and the income from it can fall as well as rise as a result of market and currency movement; you may not get back the amount originally invested. Past performance does not predict future returns.

## ABOUT THE FUND

<b>Launch date</b>	15.12.2015
<b>Benchmark</b>	MSCI Golden Dragon
<b>Sector</b>	IA China/Greater China
<b>Team</b>	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. The Fund is actively managed with the MSCI Golden Dragon used as a comparator benchmark only.

## RISK



Typically lower rewards

Typically higher rewards

The risk and reward indicator shows where the fund ranks in terms of its potential risk and return. The fund is ranked as higher risk as its price has shown high fluctuations historically. Historic data may not be a reliable indicator for the future.

## PERFORMANCE

Past performance does not predict future returns

30/04/2022	1 year	3 years	5 years	Launch*
<b>Fund</b>	-19.0	5.4	22.1	74.8
<b>Index</b>	-20.9	6.2	31.8	91.8
<b>Sector</b>	-24.8	5.5	31.4	79.6

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

<b>Fund</b>	9.2%
<b>Index</b>	10.8%
<b>Sector</b>	9.6%

Discrete 12m performance is shown at the end of this commentary. Source: FE fundinfo, bid to bid, total return. \*Launch: 15.12.2015. Investors should note that fees and expenses are charged to the capital of the Fund. This reduces the return on your investment by an amount equivalent to the Ongoing Charges Figure (OCF). The fund performance shown has been reduced by the current OCF of 0.89% per annum. Returns for share classes with a different OCF will vary accordingly. The performance returns do not reflect any initial charge; any such charge will also reduce the return.

## SUMMARY

In April, the Guinness Best of China Fund fell 0.6% while the benchmark, the MSCI Golden Dragon Net Total Return Index ("MSCI Golden Dragon Index") fell 1.8%, and the MSCI China Net Total Return Index ("MSCI China Index") rose 0.2% (in GBP). In the last 12 months, the Guinness Best of China Fund has fallen 19.0% while the MSCI Golden Dragon Index has fallen 20.9% and the MSCI China Index has fallen 29.8%.

Total Covid cases in China peaked in April and have slightly dropped in May, with more cities locking down early to avoid a similar fate to Shanghai. Importantly, a cluster of Covid cases was detected in Beijing, leading to significant restrictions on movement in the capital. These lockdowns and restrictions incur a significant economic cost, explaining the weak economic data coming through.

The NBS Purchasing Managers Index (PMI), which is more geared towards state-owned firms, fell from 49.5 in March to 47.4 in April, where a level below 50 indicates contracting economic activity. The Caixin PMI, which is more geared towards private firms, fell from 48.1 in March to 46.0 in April. The Caixin services PMI fell from an already weak reading of 42.0 in March to 36.3 in April.

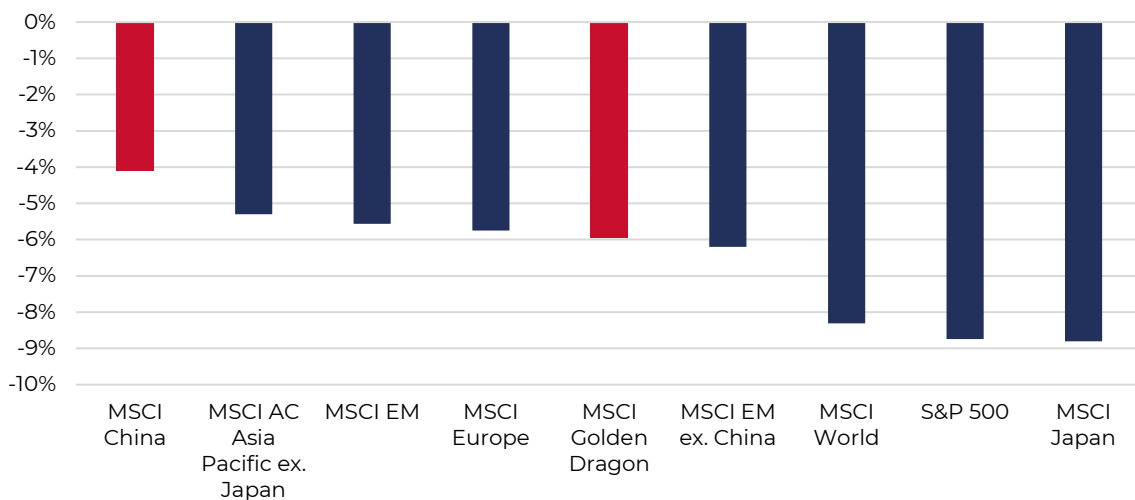
The Required Reserve Ratio (RRR) was cut by 0.25%, freeing some liquidity, but short-term interest rates were not lowered, which was a surprise to markets.

We remain focused on the long-term structural growth themes which persist despite the weak macro environment. These seven themes are: Rise of the Middle Class, Sustainability, Manufacturing Upgrades, Healthcare, Cloud Computing & Artificial Intelligence, Next Gen Consumer and Financial Services. We believe these themes will persist even as China continues with its zero covid policy. Investors can get access to these themes at historically low levels, as the Fund trades at 12.5x on estimated 2022 earnings.

## MARKET COMMENTARY

In April, Chinese markets fell but were outperformers relative to developed market counterparts. The MSCI China Index fell 4.1% (in USD unless otherwise stated) while the S&P 500 Index fell 8.7%. The Chinese government continues to promise it will stimulate the economy, but markets remain unconvinced. At the end of April, the politburo released a statement saying it would improve its economic policies to help growth, vowing to accelerate measures which have already been announced. It also repeated its stance that the period of tighter regulation affecting the tech platform stocks would soon come to a close, and that it supports the healthy development of the sector. However, the statement also reiterated its support for China's dynamic zero covid policy, which suggests the economic disruptions from lockdowns will continue. We have not yet seen a significant easing in monetary or fiscal policy, so market sentiment remains poor.

Returns by Market in April 2022

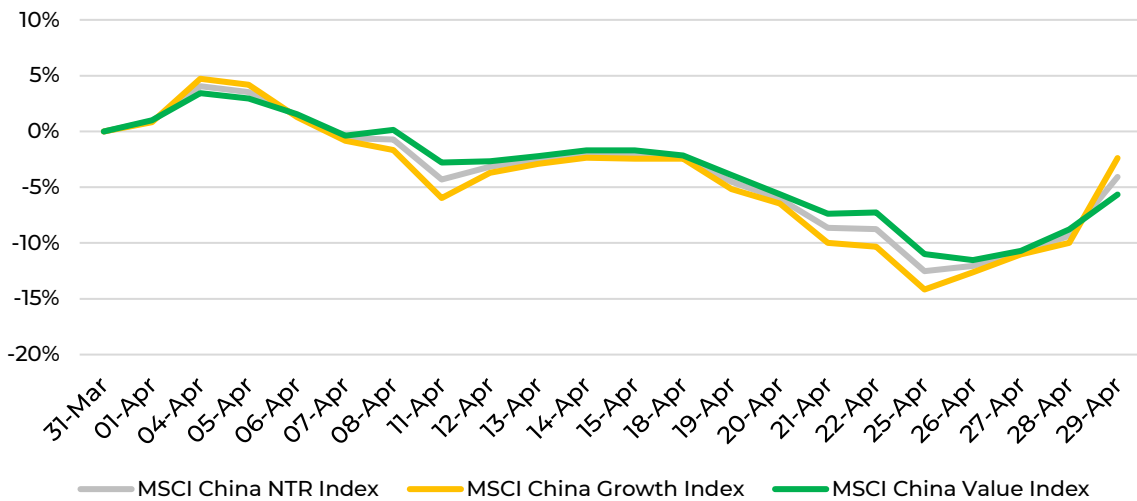


(Data from 31/03/22 to 30/04/22, returns in USD, source: Bloomberg, Guinness Global Investors calculations)

In April, value stocks did worse than growth, as the MSCI China Value Index fell 5.7% while the Growth Index fell by 2.4%. But this masks the significant sell-off in the middle of the month, where at its weakest, Growth was down 14.2% and Value was down 11.0%.

## Guinness Best of China Fund

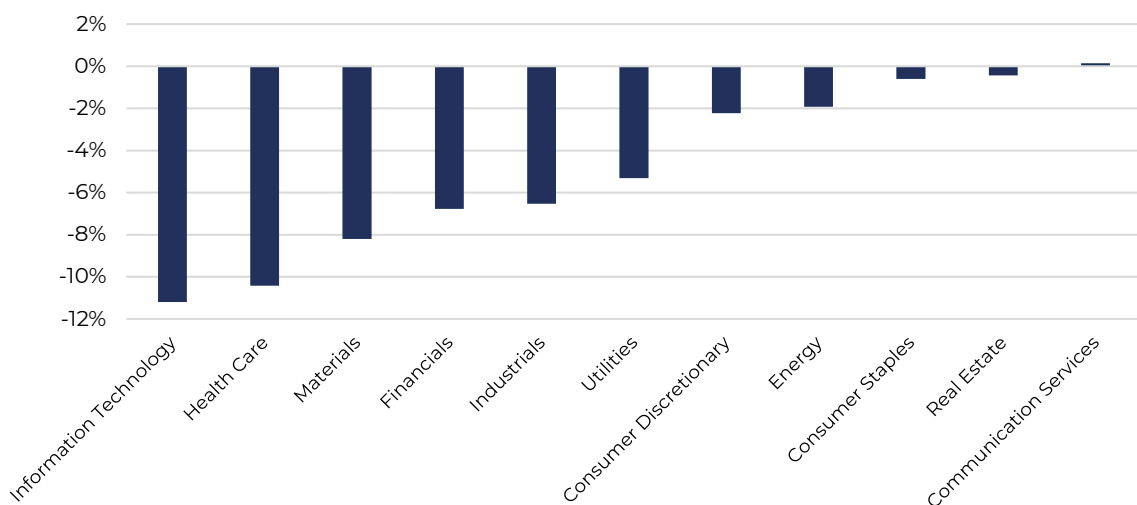
### Growth vs Value in April



(Data from 31/03/22 to 30/04/22, returns in USD, source: Bloomberg, Guinness Global Investors calculations)

In April, the strongest sectors were Communication Services, Real Estate and Consumer Staples. The weakest were Information Technology, Health Care and Materials. Information Technology was weak across subsectors due to weakening end demand and rising costs.

### Returns by Sector for MSCI China in April



(Data from 31/03/22 to 30/04/2022, returns in USD, source: Bloomberg, Guinness Global Investors calculations)

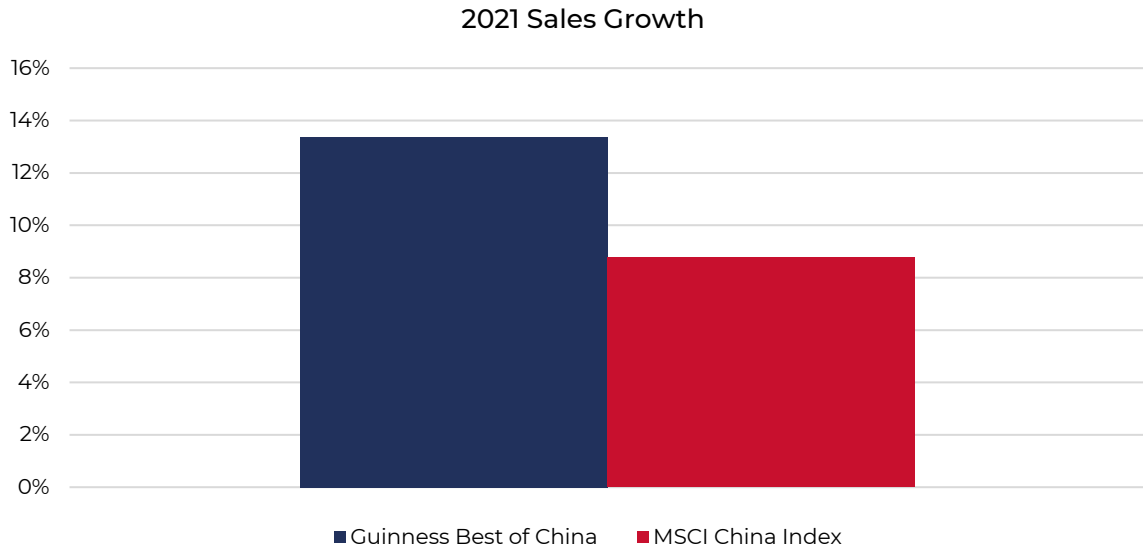
## COMPANY OPERATING PERFORMANCE

CSPC Pharmaceutical is a pharmaceutical company which in 2021 grew its revenue by 12% and its net income by 9%. One of its main products, NBP, which is used to treat strokes, saw significant price cuts in exchange for the volume of business from remaining on the national drug list. On the other hand, CSPC's oncology sales grew rapidly as the business builds new growth drivers. The company has a solid pipeline of products coming through,

## Guinness Best of China Fund

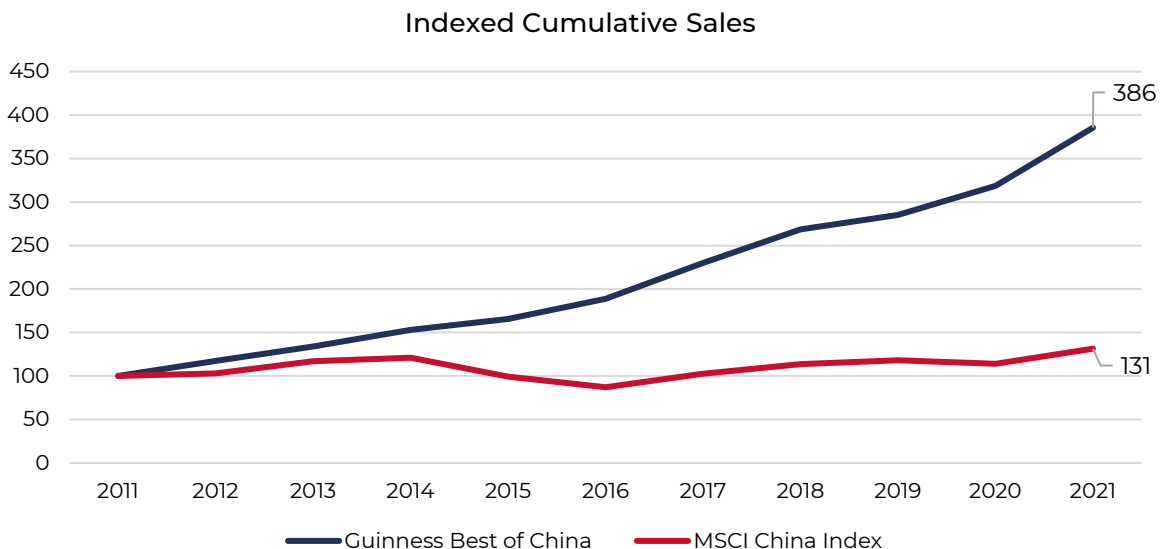
including a Covid mRNA vaccine.

In 2021 the aggregate sales growth of the Fund's current holdings was 13%, which was higher than the aggregate sales growth of the MSCI China Index, which was 9%.



(Data as of 30/04/22, sales in USD, source: Bloomberg, Guinness Global Investors calculations.)

We argue the higher growth is no coincidence. Our focus on structural growth themes means the Fund's current holdings have, over the past 10 years, grown sales at a much higher rate than the broader market. (Note for the cumulative calculations for the Fund, we look at the aggregate sales growth of the current holdings over the past 10 years. When calculating the aggregate sales growth for the MSCI China Index, the holdings and weights do change each year, so the companies on which 2021 sales are calculated are different to those on which 2011 sales are calculated). Below we show the aggregate sales of the Fund's current companies, over the last 10 years, have grown by a total of 286%. This is higher than 31% aggregate sales growth of companies in the MSCI China Index.

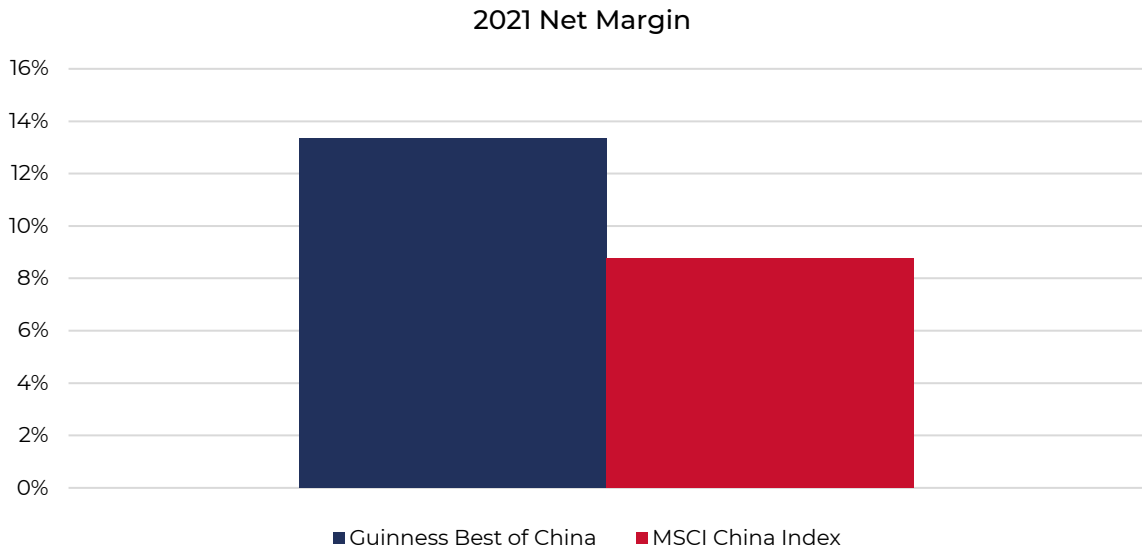


(Data as of 30/04/22, sales in USD, source: Bloomberg, Guinness Global Investors calculations. Data for Guinness Best of China is a simulation based on actual historic data for the Fund's current holdings. The Fund was launched on 15.12.2015.)

In 2021, the net margin of the Fund's current companies was 13.4% compared to 8.8% for the companies in the

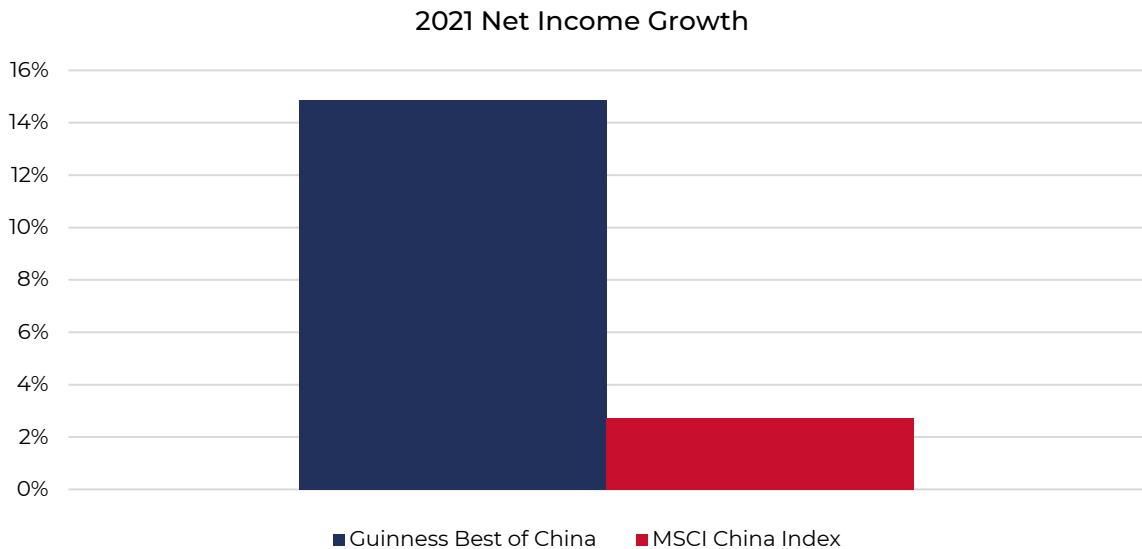
## Guinness Best of China Fund

MSCI China Index. So not only was the Fund able to grow sales at a higher rate than the broader market, but it was also able to do so with much higher profitability.



(Data as of 30/04/22, source: Bloomberg, Guinness Global Investors calculations.)

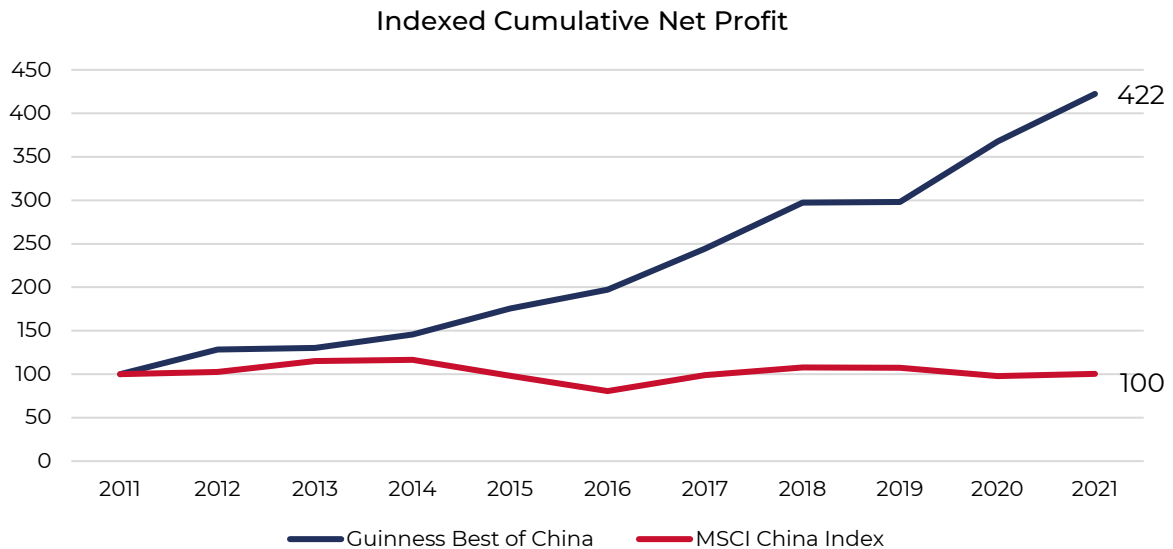
As a result, the aggregate net income growth of the Fund's current companies was 15% in 2021, compared to aggregate net income growth of only 3% for the companies in the MSCI China Index.



(Data as of 30/04/22, net income in USD, source: Bloomberg, Guinness Global Investors calculations.)

The aggregate net income of the Fund's current companies, over the last 10 years, has grown by 322%. This compares to essentially no growth in the aggregate net income of the companies in the MSCI China Index. Commentators occasionally argue that China is not investable because of the lack of long-term earnings growth in the broader market. We agree that the earnings growth of the broader market is poor, which is what makes the Fund so attractive. We are not investing in the broader market – we are investing, with high conviction, in a set of well-run companies which give exposure to the structural growth themes in China. This has resulted, as we have shown, in much higher aggregate sales and earnings growth for the Fund's holdings over the past 10 years.

## Guinness Best of China Fund



(Data as of 30/04/22, sales in USD, source: Bloomberg, Guinness Global Investors calculations. Data for Guinness Best of China is a simulation based on actual historic data for the Fund's current holdings. The Fund was launched on 15.12.2015.)

### OUTLOOK

With regards to valuation multiples, we do carry out a valuation discipline to ensure we do not overpay for growth. We carry out two disciplines – a discounted cashflow (DCF) approach and an earnings sensitivity approach. In the DCF approach, we assume various revenue growth rates and EBITDA margins to assess upside in each scenario. We factor in, for example, the upside if growth or margins are lower than expected. We also model the effect of rising discount rates, which would be prompted by rising interest rates, which we are seeing in the US. In the earnings sensitivity approach, we assume various earnings growth rates and ending valuation multiples. Again, here we assess upside if growth is lower than expected, or if multiples fall due to mean reversion or rising global discount rates.

China is trading at valuations that are one standard deviation below their average since November 2015 – we use this starting point because this is when the China ADRs were added to the Index. To put this into context, China was last trading at these levels during the trade war and late 2015/early 2016. The portfolio is valued at 12.5x on estimated 2022 earnings, which puts it at a 14% premium to the MSCI China Index, which trades at 11.0x. We hope we have shown in this update that this premium is worth paying for.

#### Portfolio Managers

Edmund Harriss

Sharukh Malik

## Guinness Best of China Fund

### PORTFOLIO

Fund top 10 holdings	Sector analysis	Geographic allocation
Zhejiang Supor 4.0%	Cons Discretionary 26.4%	China 81.2%
JD.com 4.0%	IT 19.6%	Taiwan 8.4%
NetEase 3.8%	Financials 12.2%	Hong Kong 8.2%
Chongqing Fuling Zhacai Group 3.7%	Industrials 11.3%	Cash 2.2%
Haier Smart Home 3.6%	Comm Services 9.5%	
Shenzhou International 3.5%	Health Care 8.6%	
Alibaba Group 3.5%	Consumer Staples 6.8%	
Suofeiya Home Collection 3.5%	Real Estate 3.4%	
Ping An Insurance 3.5%	Cash 2.2%	
China Overseas Land 3.4%		
% of Fund in top 10 36.4%		
Total number of stocks 33		

### PERFORMANCE

*Past performance does not predict future returns*

30/04/2022

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

<b>Fund (Y Class, 0.89% OCF)</b>	<b>9.2%</b>
MSCI Golden Dragon Index	10.8%
IA China/Greater China sector average	9.6%

Discrete years % total return (GBP)	Apr '22	Apr '21	Apr '20	Apr '19	Apr '18	Apr '17
<b>Fund (Y Class, 0.89% OCF)</b>	-19.0	34.5	-3.3	-0.9	16.9	46.6
MSCI Golden Dragon Index	-20.9	32.1	1.5	4.7	18.6	41.0
IA China/Greater China sector average	-24.8	34.1	4.7	2.0	22.2	37.1

Cumulative % total return (GBP)	1 Yr	3 Yrs	5 Yrs	Launch
<b>Fund (Y Class, 0.89% OCF)</b>	-19.0	5.4	22.1	74.8
MSCI Golden Dragon Index	-20.9	6.2	31.8	91.8
IA China/Greater China sector average	-24.8	5.5	31.4	79.6

RISK ANALYSIS				30/04/2022
Annualised, weekly, from launch on 15.12.15, in GBP	Index	Sector	Fund	
Alpha	0.00	-0.81	-0.83	
Beta	1.00	0.98	0.98	
Information ratio	0.00	-0.21	-0.18	
Maximum drawdown	-30.24	-37.41	-28.06	
R squared	1.00	0.92	0.85	
Sharpe ratio	0.38	0.30	0.28	
Tracking error	0.00	5.10	7.27	
Volatility	17.95	18.39	18.97	

Fund returns are for share classes with a current Ongoing Charges Figure (OCF) stated above; returns for share classes with a different OCF will vary accordingly. Source: FE fundinfo bid to bid, total return (0.89% OCF). Fund launch date: 15.12.2015.

## IMPORTANT INFORMATION

**Issued by Guinness Global investors** which is a trading name of Guinness Asset Management Limited which is 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.guinnessgi.com](http://www.guinnessgi.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](http://www.carnegie-fund-services.ch). The paying agent is Banque Cantonale de Genève, 17 Quai de l'Île, 1204 Geneva, Switzerland.

### Singapore

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

**Telephone calls** will be recorded and monitored.