Guinness Best of China Fund

Investment Commentary - November 2022

GUINNESS GLOBAL INVESTORS

This is a marketing communication. Please refer to the prospectus and KIID for the Fund before making any final investment decisions. Past performance does not predict future returns.

ABOUT THE FUND

Launch	15.12.2015
Benchmark	MSCI Golden Dragon
Sector	IA China/Greater China
Team	Edmund Harriss (Manager) Sharukh Malik (Manager) Mark Hammonds

Aim

The 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

Lower risk			Risk & reward			Higher risk
1	2	3	4	5	**6**	7

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 has been classed as 6 because its volatility has been measured as above average to high. Historic data may not be a reliable indicator for the future. 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.

PERFORMANCE

Past performance does not predict future returns

31/10/2022	1 year	3 years	5 years	Launch*
Fund	-27.0	-11.8	-15.6	41.1
Index	-31.8	-15.4	-13.5	48.5
Sector	-34.3	-14.1	-12.2	43.8

Discrete 12m performance is shown at the end of this commentary. Source: FE fundinfo, bid to bid, total return in GBP. *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 October, the Guinness Best of China Fund (Y class, GBP) fell 13.5% while the benchmark, the MSCI Golden Dragon Net Total Return Index (MSCI Golden Dragon Index) fell 15.8%, and the MSCI China Net Total Return Index (MSCI China Index) fell 19.3%. Therefore the Fund outperformed the MSCI Golden Dragon Index by 2.2% and the MSCI China Index by 5.8% in October.

Fund outperformance was driven by the underweight in the tech giants (Tencent, Alibaba and Meituan) and a combination of the overweight in Industrials and good stock selection in the sector.

The strongest stocks in the portfolio were Venustech, Hangzhou First Applied Material and Shenzhen Inovance. The weakest were Baidu, China Merchants Bank and China Overseas Land & Investment.

Covid restrictions and lockdowns continue, as the cities classed as high or medium risk increased to account for c.50% of GDP. However, markets are forward looking and have rallied sharply in November on the prospects of China relaxing its zero-Covid policy.

China is trading on a forward price earnings ratio of 11.2x, which is one standard deviation below its medium-term average. We think the risk-reward ratio for the country is very attractive and investors should be seriously considering investing in China. Based on other countries' historical performance, markets on average rallied a month before restrictions were eased in the initial Covid outbreak.

MACRO COMMENTARY

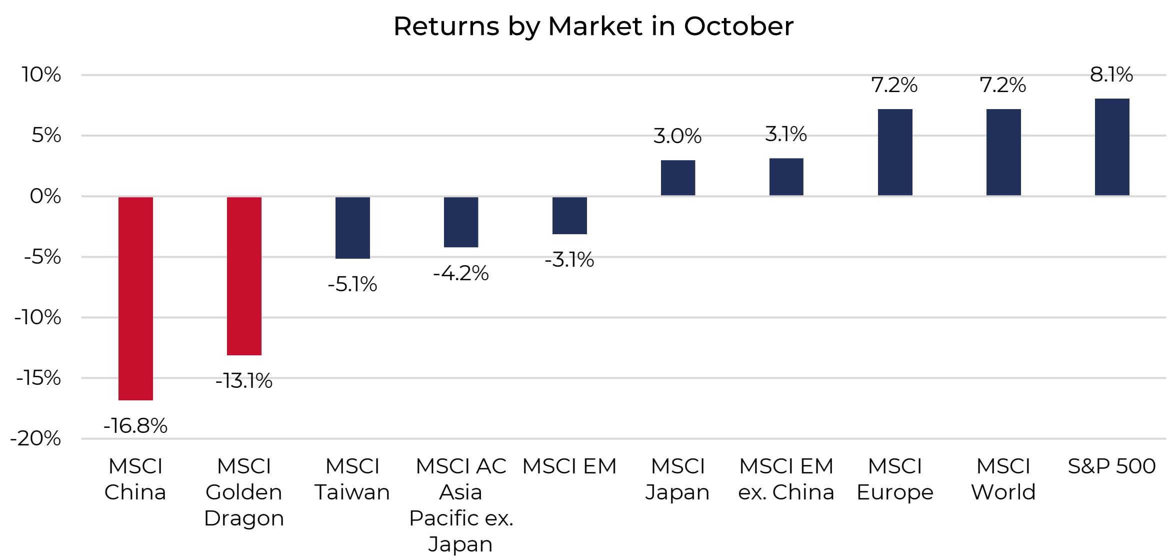
The US introduced tougher measures designed to restrict sales of advanced semiconductors to China. Licences are required to sell chips used for supercomputers in China if these chips use American technology. Licences are also required to sell semiconductor fabrication equipment to higher-end foundries in China. US persons are not allowed to support the development or production of these high-end chips in China without a licence.

The Fund does not own any mainland Chinese foundries, nor does it own any chip designers. It does own one Taiwanese foundry (TSMC). Based on the company's initial interpretation of the rules, the definition of a supercomputer chip is clear, and management think the impact on earnings is limited.

The Caixin Manufacturing Purchasing Managers Index (PMI), which is more geared towards private businesses, increased by 1.1 points to 49.2 in October (a value below 50.0 indicates weakening activity). The NBS Manufacturing PMI, which is more geared towards state owned firms, fell 0.9 points to 49.2.

In October, consumer price inflation (CPI) in China was 2.1%, lower than September's 2.8% rate. Energy prices fell, which offset a rise in pork prices. Producer price inflation turned negative for the first time in nearly two years, falling 1.3%. The subdued inflation readings reflect the impact of weakening global growth and Covid-related restrictions and lockdowns.

MARKET COMMENTARY



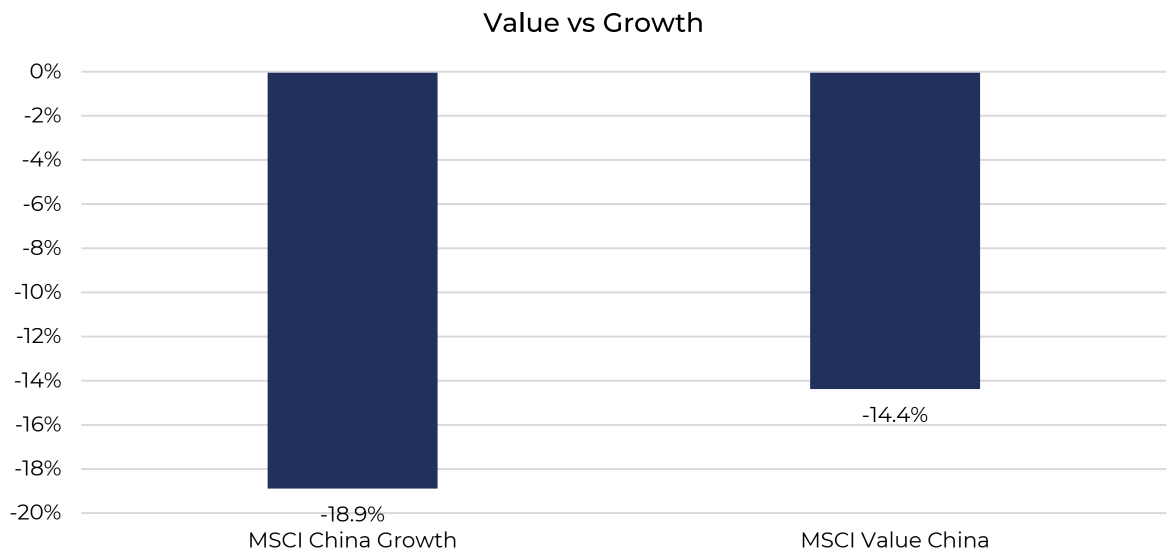
(Data from 30/09/22 to 31/10/22, returns in USD, source: Bloomberg, Guinness Global Investors calculations)

In October, China was the weakest major market, falling 16.8% in USD compared to the MSCI World Index which rose 7.2%. Markets were worried about the impact of leadership changes to the Politburo and Standing Committee of the Politburo. Xi Jinping is now onto his third term as leader of the country while Premier Le Keqiang was not reappointed to the Standing Committee. The unofficial age limit for retirement at 68 years old was ignored as Zhang Youxia (Vice Chairman of Central Military Commission) and Wang Yi (Foreign Minister) retained their spots on the Standing Committee. Xi's new appointments to the Committee consisted of clear allies with whom he has worked in the past.

Markets were concerned with the lack of "market-friendly" faces on the Standing Committee, with questions raised over China's commitment to growth. Despite the sell-off, we do not see any significant change to China's growth model. Decision making has become more centralised, but this is acceptable if decisions are rational and of course a problem if they are not. We have not seen any strong arguments explaining why the leadership changes will lead to irrational decisions now being made. We think that in the medium term, the stability in leadership is likely to allow Xi to carry out his economic plan: to upgrade China's competence in fields including high-end manufacturing, pharmaceuticals, semiconductors, and so on. These will be examples of his pillar industries – not the current internet tech companies.

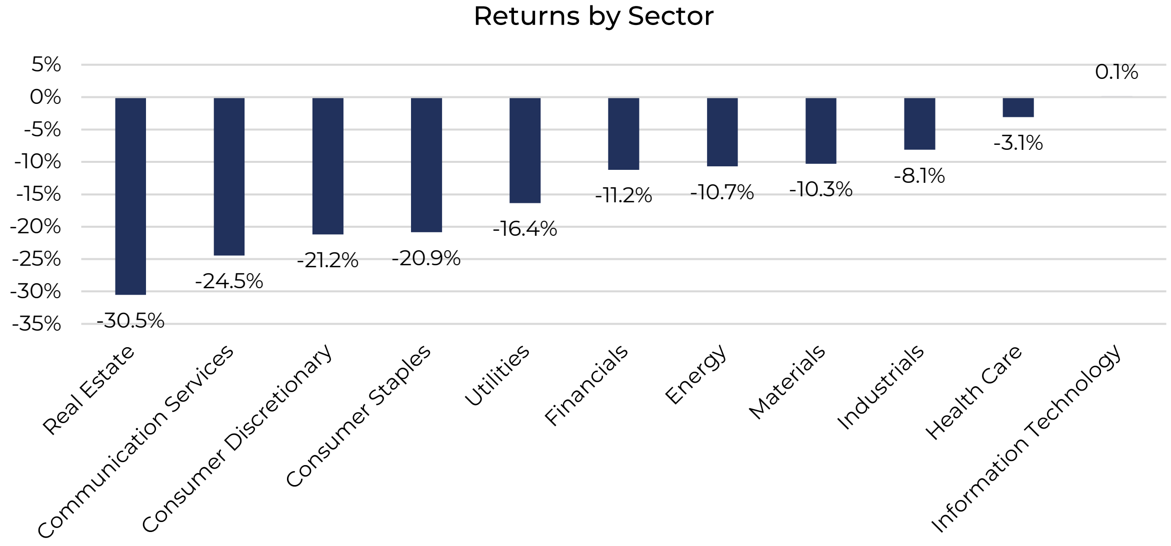
(Data from 30/09/22 to 31/10/22, returns in USD, source: Bloomberg, Guinness Global Investors calculations)

The sell-off was most concentrated in the Chinese American Depository Receipts (ADRs) listed in the US, which are generally liquid and easy for global investors to buy and sell. The Hang Seng Composite Index fell 14.2% while the CSI 300 Index (covering the A-share market) fell 10.1%.



(Data from 30/09/22 to 31/10/22, returns in USD, source: Bloomberg, Guinness Global Investors calculations)

The growth index fell by 18.9% while value index fell by 14.4%. The growth index contains many of the tech stocks which were weakest in the sell-off, explaining why it lagged the value index.



(MSCI China Index. Data from 30/09/22 to 31/10/22, returns in USD, source: Bloomberg, Guinness Global Investors calculations)

In October, the weakest sectors were Real Estate, Communication Services and Consumer Discretionary. Real Estate names were weak as the property market remains fragile. Contracted sales for the top 100 property developers fell by 31% year-on-year in October, marking no improvement compared to the 30% drop in September. The sudden resignation of the chair of Longfor (a major developer), was poorly received. We own one property developer in the Fund: China Overseas Land & Investment (COLI). It is a conservatively financed state-owned enterprise (SOE). SOEs have fared much better than their private competitors this year, being able to take on projects where the private sector has pulled back. That said, even though the SOE developers are doing better on a relative basis, they are feeling the pressure. According to estimates by JP Morgan, contracted sales for the major SOE developers fell by 20% in the first 10 months of the year, still much better than the private sector where sales have fallen by 43%. COLI's sales have fallen by 23%, in line with other SOEs. Its October sales increased by 20% year-on-year, much better than the industry overall.

As the tech giants sold off, the Communication Services and Consumer Discretionary sectors were weak. Note the Communication Services sector includes well-known companies such as Tencent, Netease and Baidu. The Consumer Discretionary sector includes Alibaba, Meituan, JD.com, Pinduoduo, BYD and Nio.

Information Technology, Health Care and Industrials were outperformers. Health Care was driven by biotech and medical device companies. Some investors are expecting that innovative drugs might not be included in central procurement lists, meaning these drugs may not be subject to large price cuts. The State Council set aside $27bn of low-interest loans to upgrade medical equipment in public buildings, boosting the prospects of medical device companies. 'New infrastructure' names outperformed, explaining some of the strength in Industrials.

PORTFOLIO PERFORMANCE

Sources of outperformance included the following:

- Underweight in the tech giants: Tencent, Alibaba and Meituan (not held in the Fund). The Fund is run on an equally weighted basis and so each position has a neutral weight of c.3.2%. As of 31/10/22, Tencent, Alibaba and Meituan accounted for 11.0%, 8.0% and 4.7% of the MSCI China Index. As these names were underperformers, the Fund captured significantly less of the downside through the underweight position.

- Overweight in Industrials, which outperformed, and good stock selection. The Industrials sector fell 8.1% in October compared to MSCI China which fell 15.6%. Our Industrials holdings as a whole did better than the sector due to our exposure to 'New Infrastructure' names. It was pleasing to see that Hangzhou First Applied Material (solar film) which we added at the end of September, was the second-strongest stock in the Fund, increasing 17.3%. Shenzhen Inovance (exposure to automation and robotics), was the third-strongest stock in the Fund, increasing 13.0%. Wuxi Lead Intelligent (equipment for EV battery plants) increased 3.1%.

COMPANY RESULTS

Our China A-share holdings reported quarterly results at the end of October. For our holdings that have so far reported, the median revenue change has been +6%, while the median earnings per share (EPS) change has been -5%. Below we summarise the most positive and negative results.

Wuxi Lead Intelligent reported a 70% increase in revenue and a 64% increase in EPS. It makes battery equipment and so benefits as automobile manufacturers shift towards electric vehicles. New orders in the quarter increased to CNY 6bn ($840m), a year-on-year increase of 94%. This is encouraging as its major customer (CATL) has yet to ramp up its tendering process, so Lead Intelligent is doing well in attracting other customers. The business is planning on issuing Global Depositary Receipts (GDRs) in the London or Swiss stock exchange to support its successful push into Europe.

Taiwan Semiconductor Manufacturing Co (TSMC) reported a 48% increase in revenue and an 80% increase in EPS. Management acknowledge demand is softening, especially for the company's N7 (7nm) node. They see the company's utilisation rate falling in the fourth quarter and expect this to continue into the first half of next year. Management expect inventory among customers to peak in the third quarter and to decline in the fourth quarter. Due to the slowdown, TSMC cut its 2022 capex from $40bn to $36bn. On the US's export controls, management said the initial impact on earnings is limited as it is only the most advanced applications and chips that are affected.

Hangzhou First Applied Material is the world's largest manufacturer of solar film, which is used to protect solar panels. Its third quarter revenue and EPS increased 41% and 9% respectively – an impairment led to earnings growth lagging revenue growth. The company is seeing demand accelerate as the supply of polysilicon, which is a key component of solar panels, increases. This greater supply of polysilicon is likely to lead to its price falling, making solar modules cheaper and so even more attractive relative to oil and gas. In the next few years, as solar module manufacturers upgrade their products, the demand for solar film is likely to shift away from EVA (ethylene vinyl acetate) film and towards POE (polyolefin encapsulant) film. Here, arguably First Applied is even more competitive and so we expect the company to do well.

Shenzhen Inovance Technology (Inovance) reported 15% revenue growth and 18% EPS growth. Inovance is a manufacturer of industrial automation tools and robotics. The company is still guiding for 2022 revenue growth of 25-50% and net profit growth of 10-30%. So far in the fourth quarter there are signs of a pick-up in industrial automation orders. The EV business (controllers and powertrains) is unlikely to make a profit this year as R&D expenses remain high and growth has been slightly slower than expected. We are not concerned with this development as Inovance has a long history of successfully and profitably expanding its product range.

Nari Technology reported a 10% increase in revenue and a 14% increase in EPS. It manufactures dispatching hardware and software for the grid. As China expands its renewable energy capacity, this new capacity must be connected to the grid which bodes well for Nari's prospects. In the first nine months of the year, China's investment in the grid has increased by 9% and Nari expect similar growth in 2023.

Hong Kong Exchanges and Clearing's (HKEX) third quarter revenue fell by 23% and its EPS fell by 30%. Demand for Chinese equities remains weak and so volumes were poor. At the same time, costs continue to grow, driven by higher wages and some legal expenses linked to the London Metal Exchange, which HKEX owns. We expect that when global investors become more bullish on China, HKEX will recover.

Ping An Insurance's third quarter revenue and EPS fell 14% and 35% respectively. Negative equity markets led to investment losses in the Property & Casualty and Asset Management segments. New Business Value was weaker than expected due to the slow macro economy and continuing Covid restrictions. However, there was operating profit growth for the Life Insurance and Banking segments.

Zhejiang Supor (cookware and kitchen appliances) reported a 11% contraction in revenue, but EPS was flat. Orders from parent company Groupe SEB were weak as overseas demand contracts. Domestic sales grew 3% year-on-year. Gross and operating margins increased as more higher-margin products were sold. Management are expecting a small decline in revenue this year with a 5% increase in profits. As there are no significant capital expenditure plans, Supor announced a special dividend to utilise some of the excess cash on its balance sheet, a sign of good capital allocation. Looking to 2023, management argue that if energy costs are high in Europe, Groupe SEB may shift more of its manufacturing away from Europe and towards Supor, which would boost its export orders.

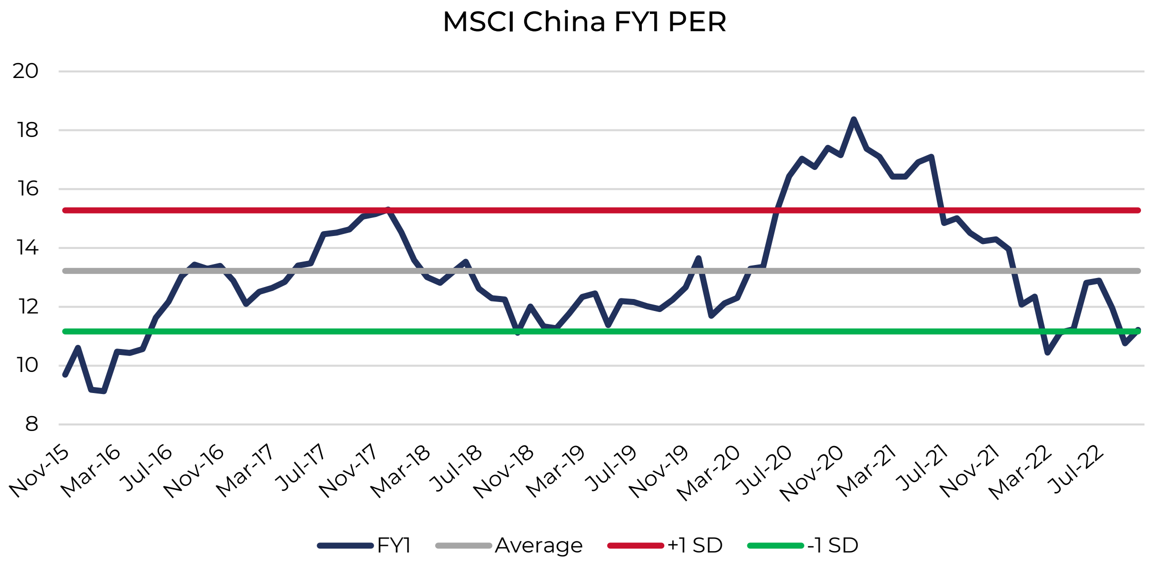
Elite Material reported third quarter revenue which fell 8% and EPS which fell 27%. Elite Material is a manufacturer of copper clad laminates (CCLs) which are the base material for PCBs. Elite specialises in halogen-free CCLs which are more environmentally friendly. In the quarter, sales of CCLs for Android phones were weak, although this was offset by orders for the latest iPhone. Sales of switches (which transmit data) were better than server CCLs. Next year we expect a pick-up in demand for server CCLs as Intel's delayed Eagle Stream platform comes online. Elite Material is a main supplier for the platform, which has 60% greater content for Elite per box.

OUTLOOK

In early November, Chinese markets have rallied strongly on the prospects of China loosening its zero-Covid policy. Some of this optimism has been driven by rumours, whereas some of it has been driven by actual developments. On social media, rumours spread that a 'reopening committee' had been formed by the government, which led to a rally in Chinese markets. In more concrete developments, the People's Daily, a government-run newspaper, for the first time played down the long-term impact of Covid on health, and said most symptoms are temporary and mild. After the German Chancellor's visit to the country, China allowed foreigners to take BioNTech's mRNA vaccine. The former head of the Chinese Centre for Disease Control and Prevention (CCDC) said in his personal view China would open its border with Hong Kong in early 2023 and would further open up later in the year. Even though the National Health Commission soon after said China was sticking with its zero-Covid policy, markets still held up due to the belief that China is moving closer to relaxing some Covid rules. Later, for international travellers and close contacts of people testing positive for Covid, China reduced the number of days needed for quarantine by two days. Second-degree close contacts will also no longer be traced.

We await the results of the CCDC's trial of 14 domestic vaccines, aiming to test the efficacy of these vaccines as booster shots to older, inactivated vaccines. Results are expected this quarter and if they are positive, the relevant vaccines could receive Emergency Use Authorisation (EUA). In this scenario, we think China could be in a position to vaccinate a large portion of its population and open up in summer 2023. In the event that the trial finds no effective domestic mRNA vaccines, there is also the possibility that China approves foreign mRNA vaccines i.e. the BioNTech/Pfizer and Moderna vaccines. Foreigners in China now being allowed to take BioNTech's mRNA vaccine adds some credibility to this theory.

We remind investors that markets are likely to rally well before China officially announces an easing of its zero-Covid policy, as the first week in November has shown. Based on other countries' historical performance, markets on average rallied a month before restrictions were eased in the initial Covid outbreak. Given China's low valuation, we argue the risk-reward ratio for the country remains attractive.



(Data from 30/11/15 to 31/10/22, SD refers to standard deviation. Source: Bloomberg, Guinness Global Investors calculations)

Portfolio Managers

Edmund Harriss

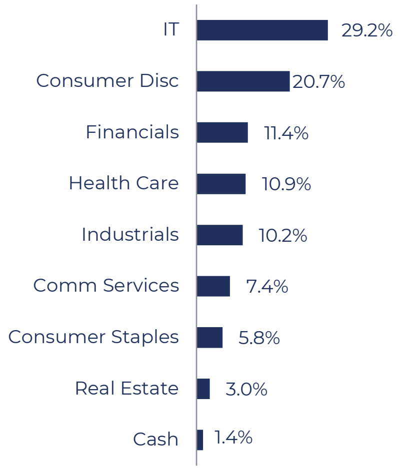
Sharukh Malik

PORTFOLIO

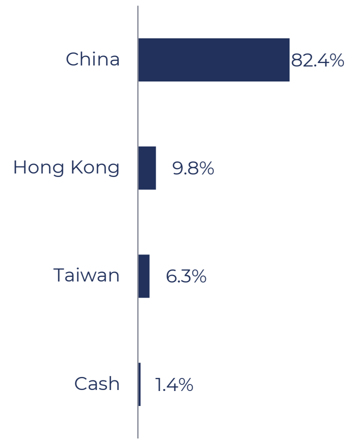
Fund top 10 holdings

Venustech Group	5.0%
HANGZHOU FIRST APPLIED MAT-A	4.1%
Sino Biopharmaceutical	4.0%
CSPC Pharmaceutical Group Ltd	3.8%
Shenzhen Inovance Technology	3.7%
Xinyi Solar	3.6%
Elite Material	3.4%
SHENZHEN H&T INTELLIGENT-A	3.4%
Shengyi Technology	3.3%
Wuxi Lead Intelligent Equipment	3.3%
% of Fund in top 10	37.7%
Total number of stocks	31

Sector analysis



Geographic allocation



PERFORMANCE

Annualised % total return from launch (GBP)

Discrete 12m % total return (GBP)	Oct '22	Oct '21	Oct '20	Oct '19	Oct '18	Oct '17
Fund (Y Class, 0.89% OCF)	-27.0	6.4	13.5	11.0	-13.8	24.6
MSCI Golden Dragon Index	-31.8	-2.1	26.7	14.0	-10.3	21.8
IA China/Greater China sector average	-34.3	-1.1	32.1	17.5	-13.0	23.8

Cumulative % total return (GBP)	YTD	1 Yr	3 Yrs	5 Yrs	Launch
Fund (Y Class, 0.89% OCF)	-28.8	-27.0	-11.8	-15.6	41.1
MSCI Golden Dragon Index	-29.8	-31.8	-15.4	-13.5	48.5
IA China/Greater China sector average	-31.6	-34.3	-14.1	-12.2	43.8

RISK ANALYSIS **31/10/2022**

Annualised, weekly, from launch on 15.12.15, in GBP	Index	Sector	Fund
Alpha	0.00	-0.11	-0.16
Beta	1.00	0.98	0.96
Information ratio	0.00	-0.06	-0.08
Maximum drawdown	-43.83	-46.93	-39.02
R squared	1.00	0.92	0.85
Sharpe ratio	0.12	0.08	0.07
Tracking error	0.00	5.42	7.44
Volatility	18.49	18.90	19.26

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 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.