Guinness China A Share

Investment Commentary – May 2023

RISK

This is a marketing communication. Please refer to the prospectus, KIDs and KIID for the Fund, which contain detailed information on its characteristics and objectives, before making any final investment decisions.

The 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. Further details on the risk factors are included in the Fund's documentation, available on our website.

Past performance does not predict future returns.

ABOUT THE STRATEGY

Launch	09.03.2023
Index	MSCI China A Onshore Index
Sector	IA China / Greater China
Managers	Sharukh Malik Edmund Harriss
Irish Domiciled	Guinness China A Share Fund

OBJECTIVE

The Fund invests in quality, profitable companies exposed to the structural growth themes we have identified in the China A share market. These themes are built upon changes we have seen in incomes, demographics, production advances and the application of technology in consumer, industrial and infrastructure settings. The Fund is actively managed and uses the MSCI China A Onshore Index as a comparator benchmark only.

CONTENTS

COMMENTARY

In April, the MSCI China A Onshore Net Return Index (MSCI China A Onshore Index) fell 3.8% in GBP.

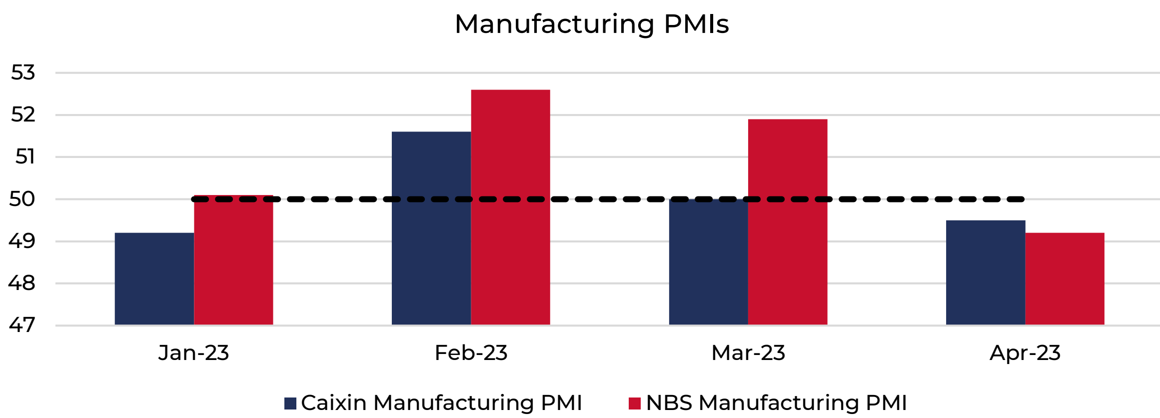
All of the companies in the Fund have now reported 2022 results. In 2022, a year dominated by covid restrictions, the Fund's holdings in aggregate grew revenue by 8%. Due to margin contraction, the Fund's net income fell by only 1% compared to a 7% reduction for the MSCI China A Onshore Index.

Based on consensus analyst estimates, the Fund is forecast to grow earnings by 25% a year over the next two years, higher than the 19% growth forecast for the MSCI China A Onshore Index.

The portfolio is trading on a forward year price/earnings ratio of 19x, which is below the 10-year average of 22x for its holdings.

Commentary continues overleaf

MACRO REVIEW

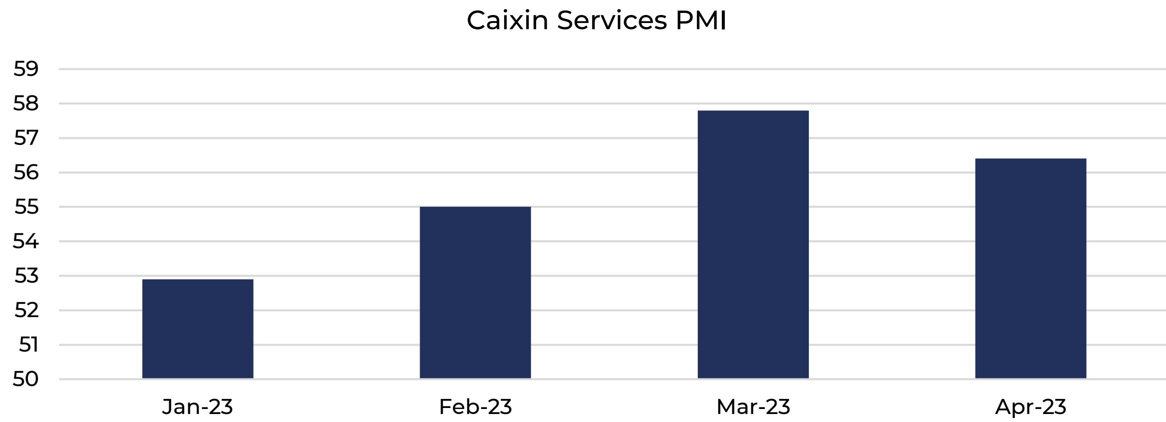


(Data from 31/12/22 to 30/04/23. Source: Bloomberg, Guinness Global Investors calculations)

The Caixin Manufacturing Purchasing Managers Index (PMI), which is more geared towards private businesses, fell to 49.5 in April (a value below 50.0 indicates weakening activity). The areas of weakness were found in the output and new orders segments, though export orders were strong. The NBS Manufacturing PMI, which is more geared towards state-owned firms, fell to 49.2. The weak PMI readings for April were surprising given China has opened up, but we are not currently concerned. The PMI data points are sequential, and so after Chinese New Year in January there was a surge of activity in February, hence the uptick in both PMI readings. It was natural to see a moderation in activity in March (relative to February) and so lower PMIs were to be expected. The PMI readings in April were surprisingly weak and so the next set of readings for May are crucial to understanding whether growth is truly lacklustre.

(Data from 31/12/22 to 30/04/23. Source: Bloomberg, Guinness Global Investors calculations)

The trade data is also helpful for gauging the health of the Chinese economy. The market regards import demand as a proxy for China growth. Here, imports fell by 7.9% (year-on-year unless otherwise stated) in April while exports have been unexpectedly robust, rising 8.5%. On imports, the distinction between changes in price and volume is critical. For example, imports of crude oil fell by 29% in April which on the surface seems weak but volumes only fell by 1%, meaning most of the decline in imports was driven by lower crude oil prices. Likewise, imports of iron ore fell by 6%, but volumes actually increased by 5%, meaning iron ore prices have fallen significantly in the past year. While in aggregate the macro data for China has not been as strong as some were expecting, the nuances in the data are important to consider.



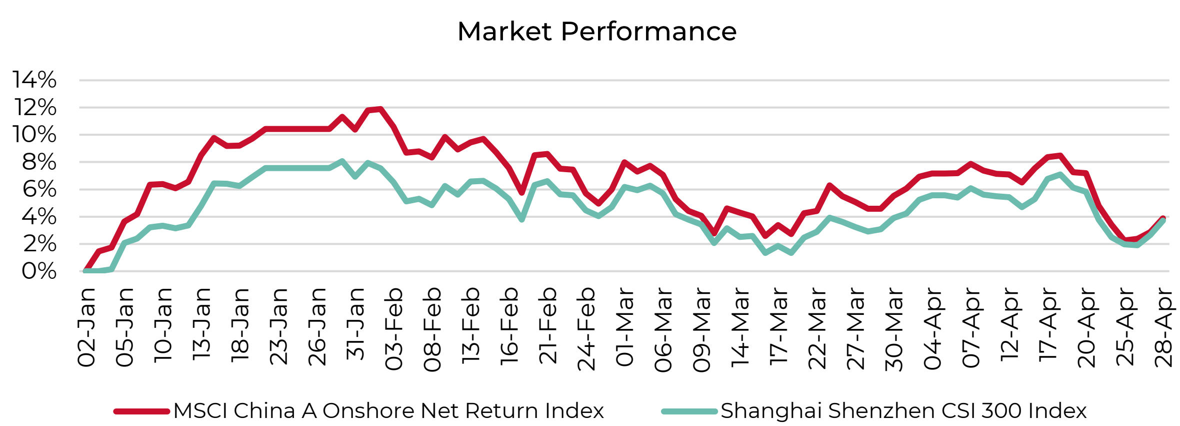
(Data from 31/12/22 to 30/04/23. Source: Bloomberg, Guinness Global Investors calculations)

On a more positive note, the rebound in consumption data is encouraging. Though it has moderated, the Caixin Services PMI is well above 50, which indicates strengthening activity. As restaurants and leisure venues have reopened, activity has been brisk, and this should be supportive for economic growth.

With respect to macro data more generally, we think China is likely to start benefiting from a low base effect. At this point last year, Shanghai was in lockdown, which started the cycle of movement restrictions and further lockdowns across the country. The macro data points from Apr-22 to Dec-22 were generally weak. This year, of course, there are no movement restrictions, so the macro data points for the corresponding period are likely to show good growth. If this is the case, we expect the market to react more positively towards Chinese equities.

MARKET COMMENTARY

(Performance data in the section in USD terms unless otherwise stated)

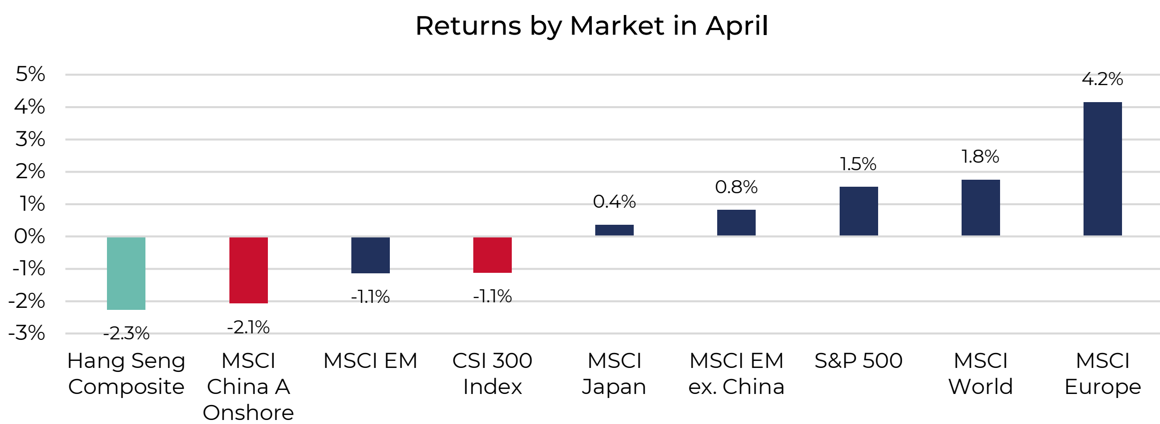


(Data from 31/12/22 to 30/04/23, returns in USD, source: Bloomberg, Guinness Global Investors calculations)

China started the year strongly as investors targeted the reopening trade. In January the MSCI China A Onshore Index rose 10.4% compared to the MSCI World Index which rose 7.1%. However, China gave back the outperformance over the course of February and much of March. In our view, this was driven by multiple factors. First, after a strong rally, it was natural to see Chinese markets give back some of their gains. From the trough in October to the peak in January, the MSCI China A Onshore Index rose 26%.

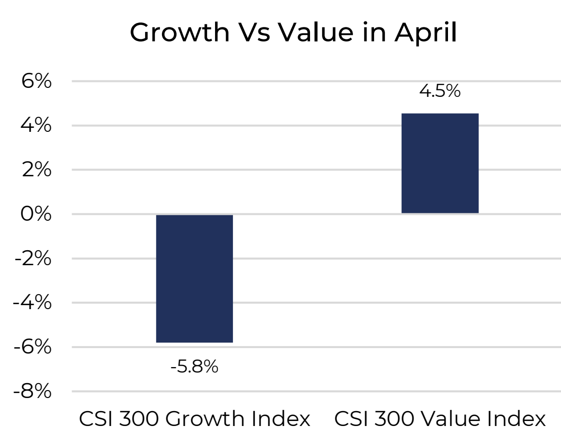
Secondly, much of the post-reopening rally was led by a valuation rerating for China, which was trading at very attractive prices before the zero-covid policy was dismantled. At the end of October, the MSCI China A Onshore Index was valued on a forward year price/earnings ratio of 10.8x. At the peak earlier this year, it was valued at a price/earnings ratio of 13.2x, meaning valuations increased by 22%. In other words, the valuation rerating accounted for most of the China rally. By January, Chinese markets were no longer cheap, so the next driver of returns moved onto earnings growth.

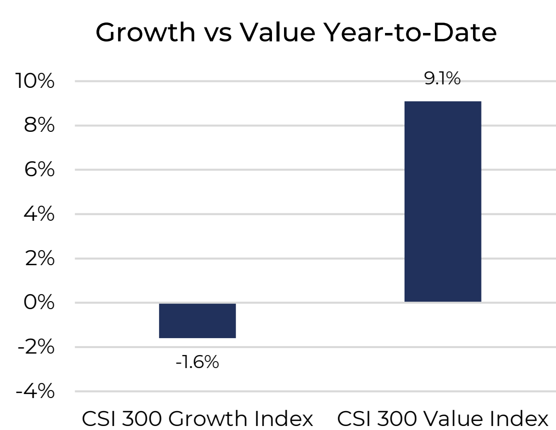
Thirdly, developments outside of China led to a global sell-off. Initially, persistently high inflation in the US led to growing expectations of further increases in interest rates in developed markets. This is generally negative for investment strategies that rely on low interest rates, as higher rates lead to lower present values of future expected cashflows. But the collapse of Silicon Valley Bank and the emergency takeover of Credit Suisse in Switzerland led to concerns over the viability of America's and Europe's banking system. This led to weakness in global equity markets and raised debate over whether the Federal Reserve would pause increases in interest rates.



(Data from 31/03/23 to 30/04/23. Returns in USD, source: Bloomberg, Guinness Global Investors calculations)

In April, the MSCI China A Onshore Index fell by 2.1% compared to the MSCI World Index which rose 1.8%. The best performing sectors in the CSI 300 Index were Energy (total return +7.7%), Financials (+4.6%) and Utilities (+3.7%). The weakest sectors were Consumer Staples (-6.5%), Information Technology (-6.1%) and Materials (-3.4%). Therefore, as we show below, value stocks outperformed in April, rising 4.5%, compared to the growth index which fell 5.8%. Year-to-date, value stocks have risen by 9.1% while growth stocks have fallen by 1.6%.





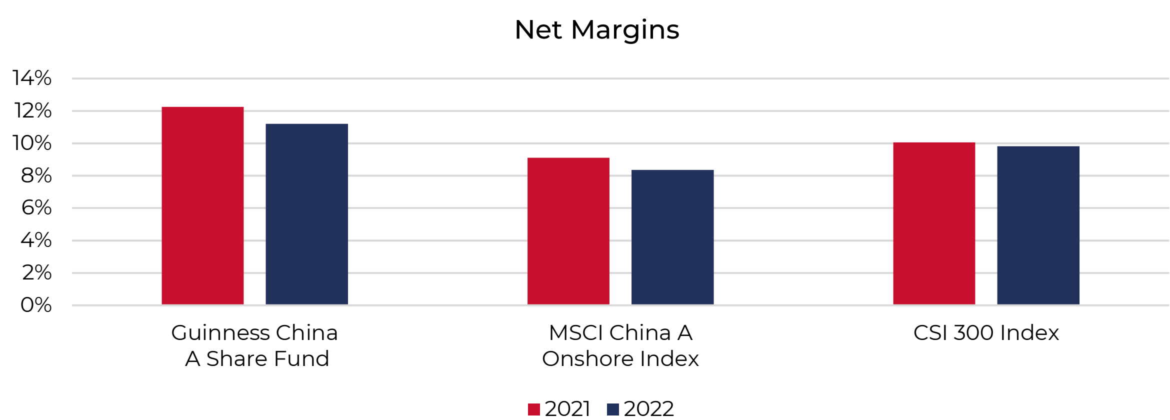
(Left chart: data from 31/03/23 to 30/04/23. Right chart: data from 31/12/22 to 30/04/23. Returns in USD, source: Bloomberg, Guinness Global Investors calculations)

COMPANY RESULTS

Our holdings have now reported their 2022 results and below we show how our portfolio performed in terms of its fundamental characteristics.

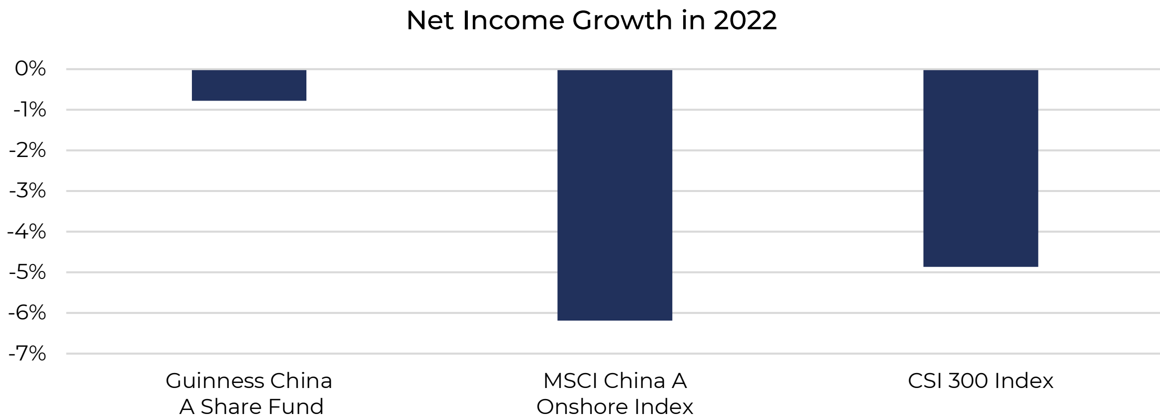
(Sales growth calculated in CNY, assuming an equally weighted portfolio of the Fund's current holdings. Source: Bloomberg, Guinness Global Investors calculations)

In 2022, the Fund's holdings in aggregate grew sales by 9% compared to 2% growth for the MSCI China A Onshore Index and a 3% contraction for the CSI 300 Index. The Fund's superior revenue growth should be of no surprise given our focus on companies with exposure to China's structural growth themes. Our companies not only give this exposure, but also earn a cash return on capital above the cost of capital, thereby showing evidence that they efficiently allocate capital.



(Assuming an equally weighted portfolio of the Fund's current holdings. Source: Bloomberg, Guinness Global Investors calculations)

In 2022, the Fund maintained its premium net margin compared to the broader market. The net margin of the Fund's holdings was 11.2%, higher than 8.4% for the MSCI China A Onshore Index and 9.8% for the CSI 300 Index. However due to covid restrictions, both the Fund and the broader market saw their net margin fall.



(Net income growth calculated in CNY, assuming an equally weighted portfolio of the Fund's current holdings source: Bloomberg, Guinness Global Investors calculations)

Consequently the net income of the holdings in the Fund fell by only 1% compared to a fall of 6% for the MSCI China A Onshore Index and a fall of 5% for the CSI 300 Index.

PORTFOLIO HOLDINGS

Below we summarise the operating performance of our stocks, focusing on those companies with the highest and lowest earnings growth.

The companies with the strongest earnings growth were Shanghai Putailai New Energy Technology, Zhejiang Jingsheng Mechanical & Electrical, Wuxi Lead Intelligent Equipment, Shenzhen Capchem Technology and Xiamen Faratronic.

Shanghai Putailai New Energy Technology: In 2022, revenue grew 72% and earnings per share (EPS) grew 77%. Putailai is a manufacturer of battery materials. It is one of the world's largest manufacturers of graphite anode material, which are sheets of graphite between which lithium ions are stored when a battery is being charged. Putailai is also China's largest manufacturer of coated separators, which keep the anode and cathode apart, allowing lithium ions to pass through. The company's products are demanded by both domestic customers such as CATL and BYD, as well as foreign customers such as Samsung SDI and LG Energy Solutions. Due to the intense competition in the domestic EV market, unit profitability declined in the fourth quarter. First quarter results for 2023 showed a similar trend in unit profitability, with Putailai expecting a rebound in the second half of the year. In May, Putailai also announced it would invest up to $1.5bn into a new anode plant in Sweden. The first customer of the new plant will be Northvolt, Europe's largest battery manufacturer.

Zhejiang Jingsheng Mechanical & Electrical: In 2022, revenue grew 78% and EPS grew 70%. Jingsheng is China's largest manufacturer of crystal growing furnaces (CGF), with 60-70% domestic market share. Crystal growing furnaces are used to heat silicon which is eventually made into silicon wafers that form solar cells. Given the rapidly increasing demand for solar panels, management expect another strong year in 2023 with guidance for at least 60% revenue growth. Older capacity is being phased out as customers demand the latest generation of CGFs, which are more efficient and allow downstream customers to remain cost competitive.

Wuxi Lead Intelligent Equipment: In 2022, revenue grew 39% and EPS grew 40%. Lead Intelligent is a manufacturer of battery production equipment. Its second largest shareholder is CATL, one of the world's largest battery manufacturers. Lead Intelligent is also a supplier to European customers Volkswagen and Northvolt. For 2023, management expect the overseas market to be the growth driver given potential overcapacity concerns in China. Each GWh of orders has higher associated revenue in the overseas market due to the higher regulatory standards that must be met. Despite a 25% tariff in the US, Lead Intelligent has signed multiple cooperation agreements to expand in the country.

Shenzhen Capchem Technology: In 2022, revenue grew 39% and EPS grew 34%. Capchem is a manufacturer of battery electrolytes, which allow lithium ions to flow when a battery is charging and discharging. It is the second largest electrolyte producer in China, having specialised in the field since 2003. Given the rising demand for EVs in China, operating performance was strong in 2022. Capchem also specialises in capacitor chemicals, with a high market share both domestically and abroad. The company is also a major supplier of organic fluorine chemicals for the anaesthesia market, so provides exposure to rising demand for healthcare services.

Xiamen Faratronic: In 2022, revenue grew 26% and EPS rose 21%. Faratronic is the world's largest manufacturer of film capacitors, which store electrical energy and are designed to discharge very quickly. Film capacitors are used in solar and wind power equipment as they can handle the high peak voltage requirements. In these applications, Faratronic is estimated to have 65-70% global market share. Film capacitors are also used in EVs to convert between different types of current. In 2022, Faratronic's market share in the domestic market was flat but the company did grow overseas. To grow market share, the company is aiming to lower its pricing, which it can afford to do because it has much higher gross margins than its competitors.

The companies with the weakest earnings growth in 2022 were Juewei Food, Sany Heavy Industry, China Tourism Group Duty Free, Shengyi Technology and Shandong Sinocera Functional Material.

Juewei Food: In 2022, revenue rose by 1% and EPS fell 76%. Juewei Food sells braised food snacks in central, eastern and southern China. In 2022 revenue rose slightly, but because of covid restrictions and higher food prices, EPS fell 76%. Since China has reopened, there has been a recovery in performance; in the first quarter, revenue grew 8% and EPS grew 58%. Management say that in April, store productivity was close to 2019 levels. The company aims to expand the number of stores in tier 1 and 2 cities, focusing on transport hubs where investment costs tend to be lower.

Sany Heavy Industry: In 2022, revenue fell 24% and EPS fell 65%. Sany Heavy Industry is a leading manufacturer of excavators, construction cranes and truck-mounted concrete pumps. Due to the weakness in the domestic property market, it was a tough operational environment for Sany last year. Domestic sales fell 47% and given the lack of policy stimulus, management expect another weak year in 2023. However the overseas market is a bright spot, with overseas sales growing 47% in 2022, accounting for 45% of sales. Sany's market share abroad is rising, reaching 8.2%. Sany began construction of a new factory in Indonesia with capacity to build 8,000 excavators a year. To cover the American market without incurring tariffs, Sany is planning on building a new plant in Mexico with capacity for 10,000 units a year.

China Tourism Group Duty Free (CTG): In 2022, revenue fell 17% and EPS fell 67%. CTG operates duty-free stores in China. Due to movement restrictions in China last year, results were weak, but we expect a large rebound in 2023. The newly opened Haikou International Mall, which CTG claims is the largest duty-free store in the world, has already turned profitable. Flagship stores from YSL and Cartier are driving traffic, expected to be followed by Prada and Gucci. Profitability is still lagging revenue growth due to a combination of discounting, higher-cost products procured last year when the renminbi was weak, and high commissions in airport stores where traffic is only gradually recovering. Here CTG is negotiating with airports to lower commission rates until traffic meaningfully picks up.

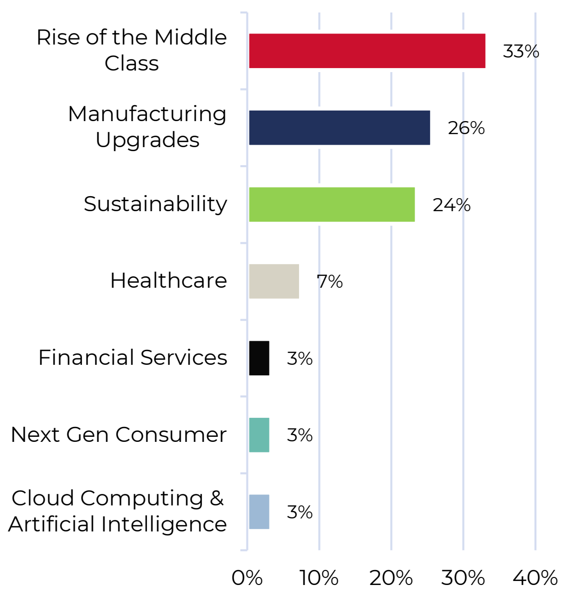
Shengyi Technology: In 2022, revenue fell 11% and EPS fell 46%. Shengyi is one of the world's largest manufacturers of copper clad laminates (CCLs) which are used in printed circuit boards. Consumer electronics demand is generally weak, which led to weak CCL prices in 2022. In 2023, the weakness has persisted, but ongoing server upgrades should boost demand for higher-speed CCL products. The newer servers have greater CCL content per unit, which should boost volumes in this segment.

Shandong Sinocera Functional Material: In 2022, revenue was flat while EPS fell 37%. Sinocera is a manufacturer of advanced ceramic materials used in electronic products, catalytics, dental prosthetics and solar cells. Volumes and margins in the ceramic materials used in electronics fell in 2022 due to covid disruptions and weaker domestic demand. Sales for catalytic materials fell slightly as sales of passenger vehicles and heavy-duty trucks were weak. Biomedical materials, namely zirconia, the base material for dental crowns, rose as overseas sales were strong. Although January and February 2023 were muted, the company saw a large recovery in activity in March. In the major segments, half of the first quarter's revenue was realised in March, which gave management optimism that business would pick up in the second quarter.

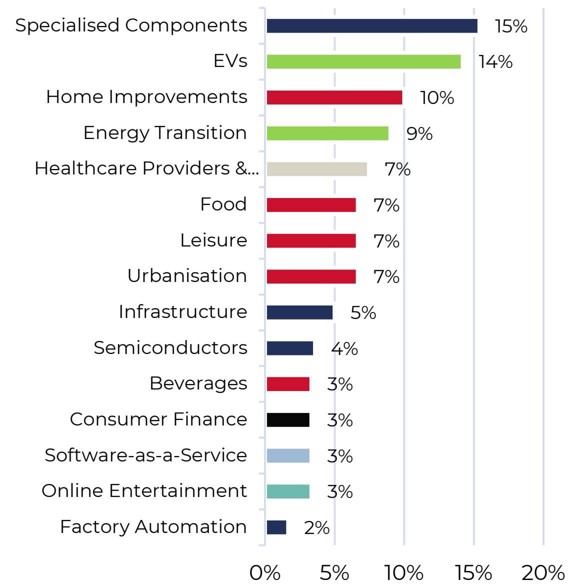
PORTFOLIO POSITIONING

By theme, the Fund's largest exposures are to the Rise of the Middle Class, followed by Manufacturing Upgrades and Sustainability. Important subthemes include Specialised Components, EVs, Home Improvements and Energy Transition.

By Theme



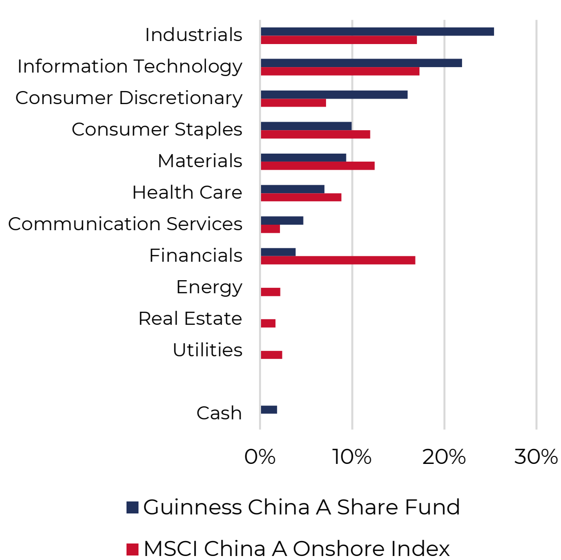
By Subtheme



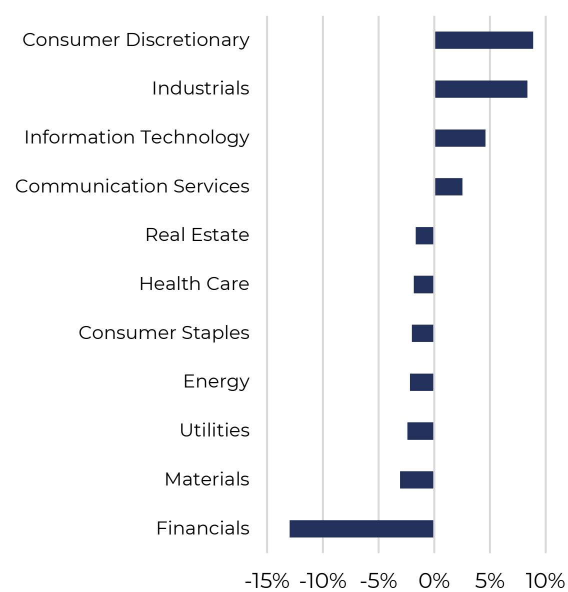
(Weighted exposure of portfolio holdings to themes and sub-themes, assuming each position is equally weighted. Data as of 30/04/23, source: Guinness Global Investors calculations)

On a sector basis, the Fund's largest exposures are to Industrials, Information Technology and Consumer Discretionary. Relative to the MSCI China A Onshore Index, the Fund is overweight in Consumer Discretionary and Industrials, and underweight in Financials.

Fund Allocation vs MSCI China A Onshore Index



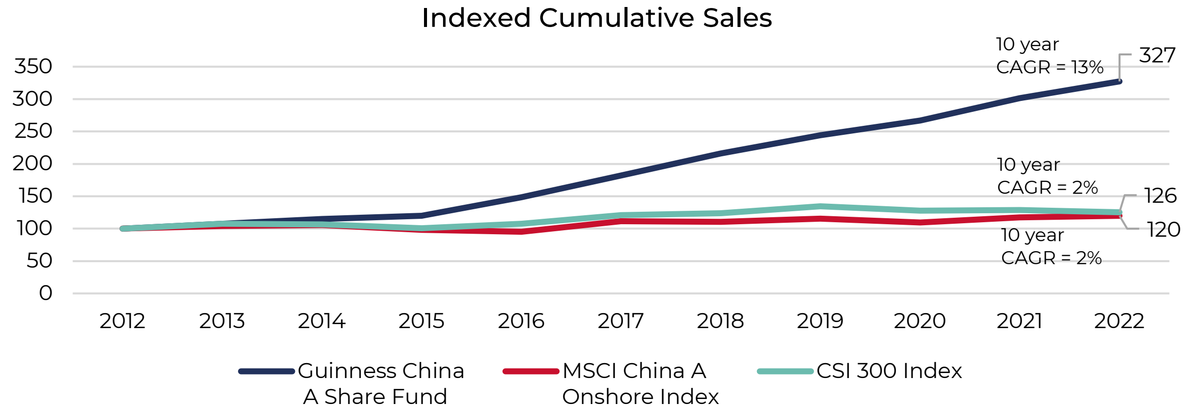
Fund over/underweights



(Data as of 30/04/23, source: Guinness Global Investors calculations, Bloomberg)

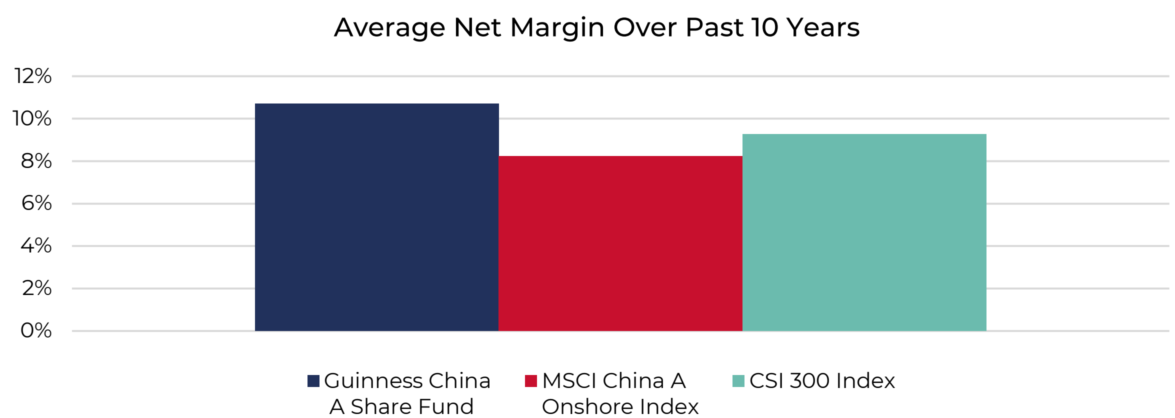
OUTLOOK

We think now is a good time to be investing in the high-quality, growing companies we target in the Fund. We show below the historical fundamental characteristics of the holdings in the portfolio. Over the past 10 years, the holdings in the portfolio have grown sales by 227% compared to only 20% growth for the MSCI China A Onshore Index.



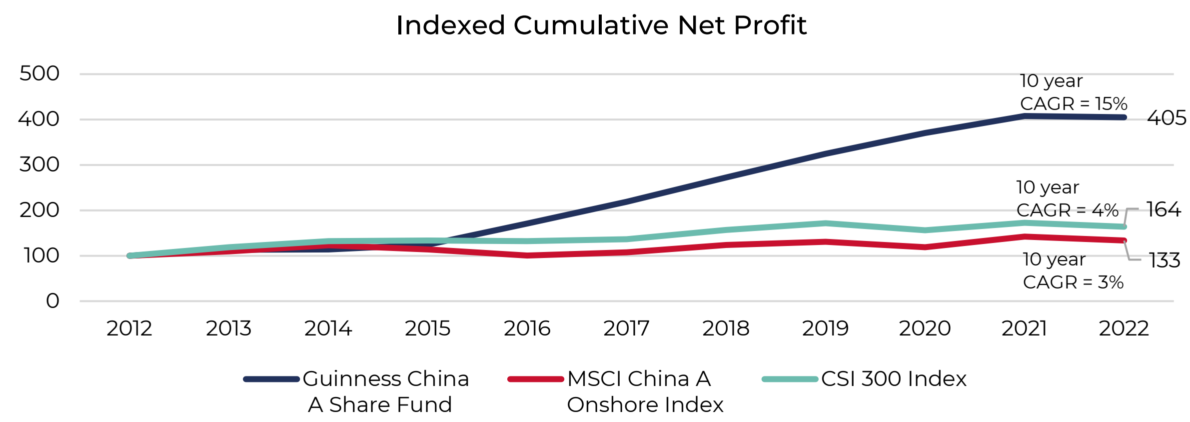
(Source: MSCI, Bloomberg, Guinness calculations. Data as of 30/04/2023. Data for the Fund assumes an equally weighted portfolio of the current holdings. Data for the Fund is a simulation based on actual historic data for the Fund's current holdings)

The Fund has also grown revenue at higher margins than the broader market. The average 10-year net margin for the holdings in the Fund is 10.7%, higher than the 8.2% average for the MSCI China A Onshore Index.



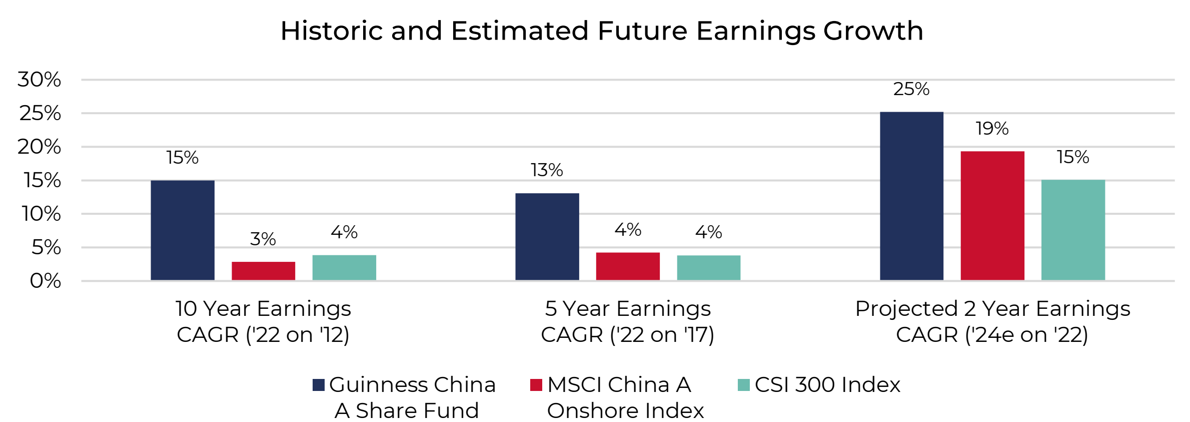
(Source: MSCI, Bloomberg, Guinness calculations. Data as of 30/04/2023. Data for the Fund assumes an equally weighted portfolio of the current holdings. Data for the Fund is a simulation based on actual historic data for the Fund's current holdings)

So as a result of higher historical revenue growth at higher margins, the Fund's holdings have in aggregate grown net income by 305% over the past decade, compared to only 33% growth for the MSCI China A Onshore Index.



(Source: MSCI, Bloomberg, Guinness calculations. Data as of 30/04/2023. Data for the Fund assumes an equally weighted portfolio of the current holdings. Data for the Fund is a simulation based on actual historic data for the Fund's current holdings)

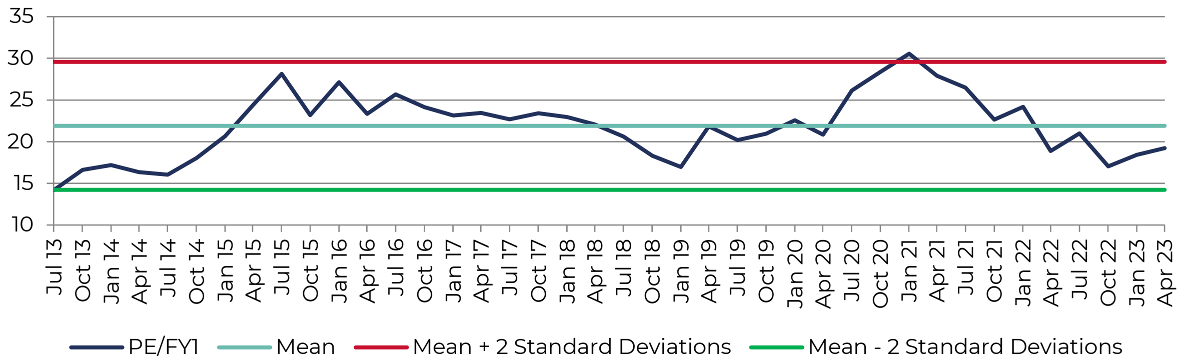
On a forward-looking basis, the market is expecting net income for the Fund to grow by 25% a year over the next two years, compared to 19% growth a year for the MSCI China A Onshore Index. These rates are higher than have been achieved in the past because 2022 was a weak year due to covid. But we have confidence in our companies' ability to grow earnings given that over the past decade, they have actually grown earnings at 15% a year. However, the same cannot be said for the broader market, where, although the market is forecasting high growth, the actual track record is poor. We argue an active approach is necessary for investing in China.



(Source: MSCI, Bloomberg, Guinness calculations. Data as of 09/05/2023. Data for the Fund assumes an equally weighted portfolio of the current holdings. Data for the Fund is a simulation based on actual historic data for the Fund's current holdings)

We show below the historic forward-looking price/earnings ratio for the current portfolio. The portfolio is trading at 20x on forward year earnings, which is below the 10-year average valuation of 22x for its holdings. Given China is the only major economy expected to see an acceleration in economic growth this year, we think the Fund's valuation is very attractive for the growth on offer.

Historic Forward Year Price/Earnings Ratio for Current Holdings



(Source: MSCI, Bloomberg, Guinness calculations. Data as of 09/05/2023. Data for the Fund assumes an equally weighted portfolio of the current holdings. Data for the Fund is a simulation based on actual historic data for the Fund's current holdings)

Portfolio Managers

Sharukh Malik
Edmund Harriss

GUINNESS CHINA A SHARE FUND - FUND FACTS

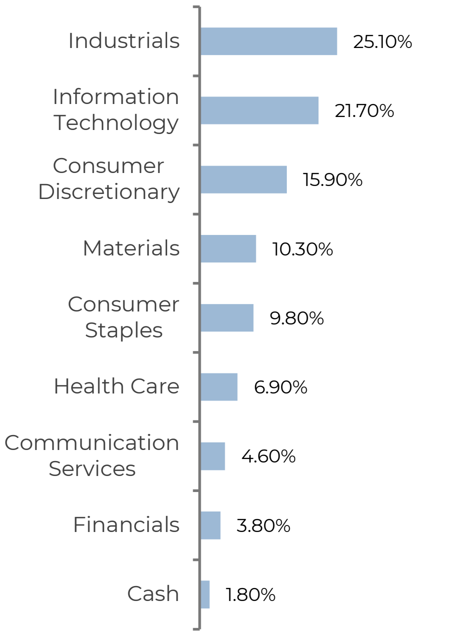
Fund size	$0.5m
Fund launch	09.03.2023
Benchmark	MSCI China A Onshore TR

GUINNESS CHINA A SHARE FUND - PORTFOLIO

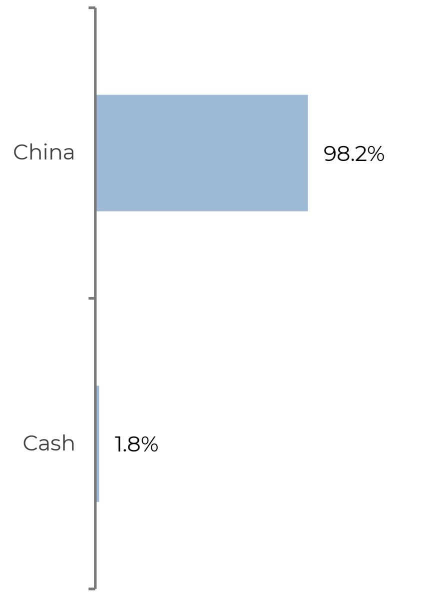
Top 10 holdings

G-bits Network Technology	4.6%
Ping An Insurance Group	3.8%
Shenzhen Mindray Bio-Medical	3.7%
Sinoseal Holding Co Ltd	3.7%
Guangzhou Restaurant Group	3.6%
Shenzhen Capchem Technology Co	3.6%
Shanghai Putailai New Energy	3.5%
Chongqing Fuling Zhacai Group	3.5%
Zhejiang Jingsheng Mechanical	3.4%
Inner Mongolia Yili Industrial	3.4%
	36.9%
Number of holdings	30

Sector



Country



For regulatory reasons, we are unable to provide fund performance information where the track record is less than 12 months.

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 the Guinness China A Share 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.

Documentation
The documentation needed to make an investment, including the Prospectus, the Key Information Document (KID), 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 KID 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.