

GUINNESS

Best of China

Annual review

2019

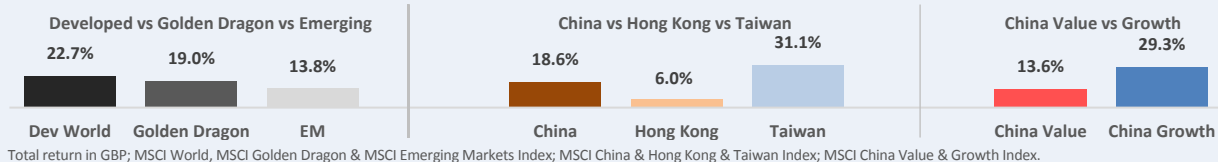
Edmund Harriss
Portfolio Manager

Mark Hammonds, CFA & Sharukh Malik, CFA
Analysts

GUINNESS
ASSET MANAGEMENT

What happened in Greater China?

- Trade talks between the US and China broke down in May as the US raised tariffs on Chinese goods and put Huawei on its entity list.
- In September the US imposed further tariffs but soon after talks resumed, both countries agreed to delay further tariff rises and in October they agreed the broad outlines for a “Phase 1” agreement, which was signed in January 2020.
- MSCI increased the inclusion factor for domestic China-listed A-shares from 5% to 20% in some of their indexes. According to MSCI, this took A-shares’ weight to 12.1% and 4.1% in the MSCI China and MSCI Emerging Markets Indexes.
- The Science Technology Innovation Board (STIB) was launched, aiming to make it easier for private companies in innovative sectors to raise capital.
- Bloomberg and JP Morgan added renminbi government debt into their indexes.
- African Swine Fever hit China’s pig farmers, whose livestock may have fallen by as much 40-50%, putting upward pressure on inflation.
- Hong Kong was paralysed by protests over a bill which would allow extraditions of residents to China and Taiwan. The bill was dropped in September but protests continued, pushing Hong Kong into recession.
- Taiwan’s tech-heavy economy showed signs of recovery following a weak 2018 as trade tensions eased. Recovery in semiconductors and demand pull-through from 5G also helped.



What happened in the Fund?

- The fund rose 26.0% in 2019 (Z class, in GBP) compared to the MSCI Golden Dragon Net Total Return (NTR) Index which rose 19.0%.
- Taiwan was the strongest region, with the MSCI Taiwan NTR Index rising 31.1%. The MSCI China NTR Index rose 18.6% while the MSCI Hong Kong NTR Index rose 6.0%.
- The Shenzhen Component Index, which has greater exposure to “New Economy” sectors such as Information Technology, rose 38.2%. The Shanghai Composite Index, which has more exposure to “Old Economy” sectors (Financials, Industrials and Materials) rose 18.5%.
- We sold two positions: Pacific Textiles and VTech.
- We bought three positions: China Resources Gas, TravelSky and Alibaba.
- The Fund’s top-performing stocks were China Lesso, New Oriental Education, Elite Material, Sino Biopharmaceutical and Novatek Microelectronics.
- The Fund’s weakest stocks were Li & Fung, Baidu, Noah, St Shine Optical and Yangzijiang Shipbuilding.
- The Fund ended the year on a price to earnings ratio (PER) of 12.9x on 2019 and 11.6x on 2020 estimated earnings and a 16% discount to the market’s 2019 PER and a 22% discount to 2020. Earnings are forecast by the consensus to grow at a compound average annual rate of 9% over the next three years.

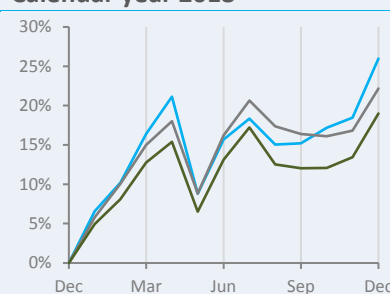
Performance (%)

Cumulative since launch

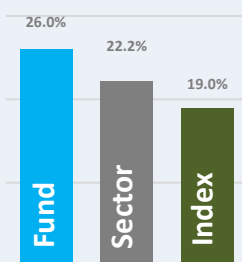


Fund Guinness Best of China Fund	Sector IA Greater China	Index MSCI Golden Dragon
--	-----------------------------------	------------------------------------

Calendar year 2018



Cumulative % gross total return, in GBP.
 Source: Financial Express, Z Class (0.74% OCF)

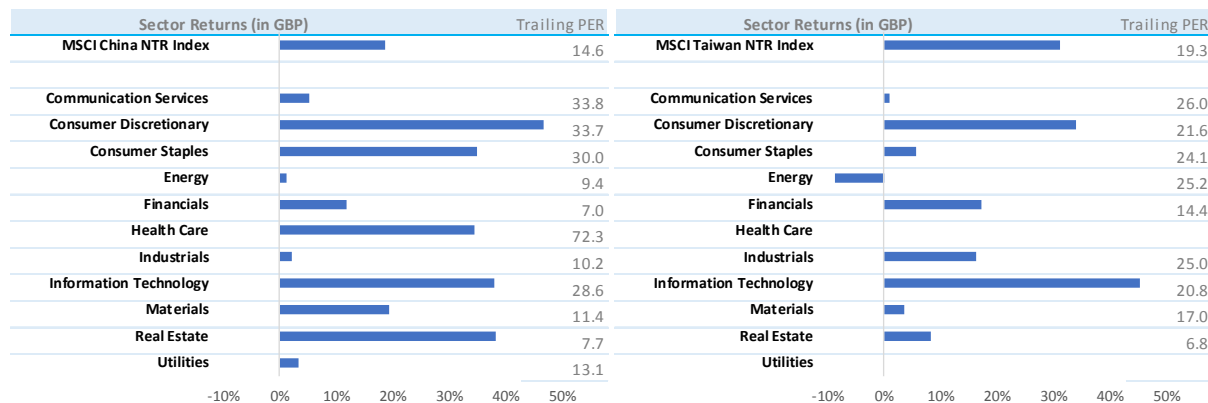


Past performance should not be taken as an indicator of future performance. The value of this investment and any income arising from it can fall as well as rise as a result of market and currency fluctuation

Fund & Market Review

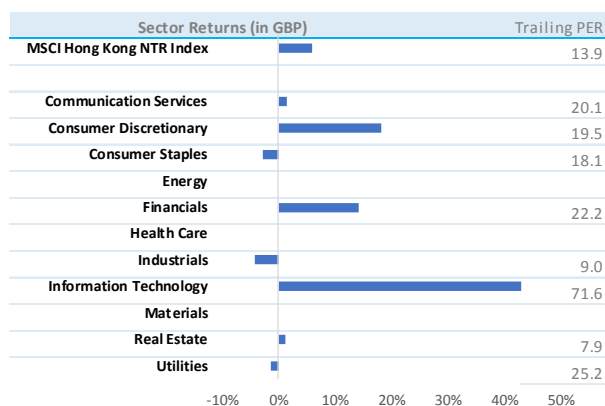
The Fund had a successful year, returning 25.3%. This was ahead of the benchmark, the MSCI Golden Dragon Net Total Return Index, which rose 19.0%. Of the 34 holdings in the fund, 25 increased in value over the year and four increased by more than 100%.

The charts below the market performance of countries and sectors as measured by relevant MSCI indices.



Source: Bloomberg

Source: Bloomberg



Source: Bloomberg

The fourth quarter of 2018 saw sharp falls for many of the Fund’s holdings most of which we felt were unwarranted. This meant that at the end of 2018 the Fund was valued at 8.9x forward earnings. However, we remained confident in our holdings due to their ability to achieve a persistently high return on capital over time and our belief that they would continue to achieve these returns. Furthermore, more than half of the Fund’s holdings traded on valuations that incorporated minimal expectations for future growth.

Over the course of 2019, the multiple the market was willing to pay for the companies in the Fund increased significantly. The Fund ended the year valued at 11.6x on forward earnings, a 30% increase from the previous year. The sharp recovery in the Fund’s valuation is likely linked to the solid earnings profile of the companies it holds, in what is a tougher operating environment in China. The Fund is expected to grow earnings by 3.7% for 2019, based on consensus earnings estimates. In contrast, the benchmark’s earnings are expected to contract by 6.5%.

China’s economic growth target was lowered from “about 6.5%” in 2018 to 6.0–6.5% in 2019. Policymakers know the pitfalls of unsustainable economic growth driven by debt accumulation, but are facing a tricky balancing act. Reducing the pace of growth too dramatically could lead to job losses and potential social

instability. Reducing the pace of growth insufficiently will lead to further debt creation, some of which is likely to be written off at a significant cost in the long term. The trade war with the US further added pressure to the economy.

Policymakers shifted the focus away from deleveraging and towards stabilising growth. The required reserve ratio (commercial bank deposits required to be placed with the central bank) was cut several times in 2019 with the aim of boosting liquidity. Interest rates were cut moderately in order to lower funding costs. Large state-owned banks historically have not been very effective in lending to smaller and medium-sized businesses and so despite looser monetary policy, we sense they are still finding it hard to obtain credit.

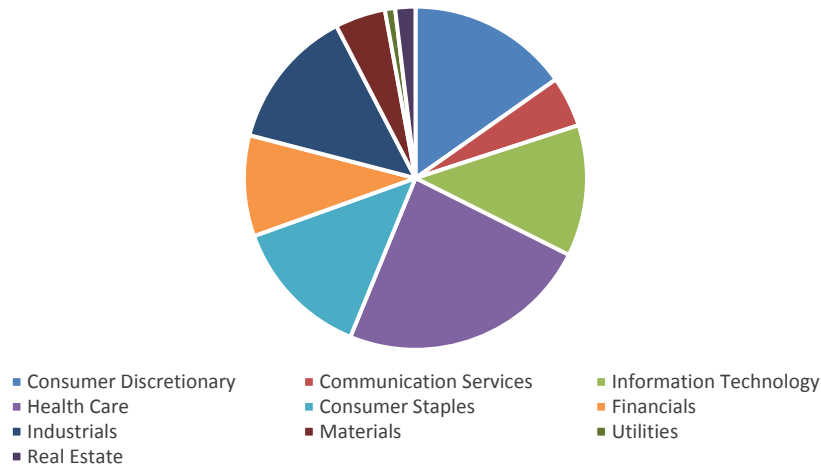
In 2019, there was an increase in the number of debt defaults in China. The government is much more willing to let larger firms default, making it clear it will not implicitly guarantee debt. Tewood Group, a large commodities trader backed by the local government in Tianjin is one such case. This is a welcome development as it reinforces the concept of risk and reduces the dangers from moral hazard, but it has made us reluctant to increase further exposure to affected industries, such as banks and heavy industrials.

There are some other factors to bear in mind. The US and China have agreed to a 'Phase One' deal which has eased fears of further deterioration in relations. Its scope is fairly limited and leaves out important points of contention which will eventually need to be addressed; this is not likely to be a smooth process. Secondly, China's demographic shift toward a shrinking labour force and ageing population has a significant influence over long-term industrial, tax and welfare policies. The country's working age population has already peaked, while the birth rate continues to fall. This is one of the motivations behind the "Made in 2025" plan, as producing more complex goods will generate funds to provide for the country's growing group of pensioners.

Though we have outlined the risks present in China, we must not forget the opportunities present in the country. China's economic growth over the foreseeable future is still likely to be well above that of developed economies. The impact of the trade dispute reinforces the need to develop a higher degree of self-sufficiency in technology. The focus on pillar industries such as electric vehicles and sustainable energy is supported by the weight of demand afforded by its sizeable domestic market. The application of technology to consumer businesses is evident from the growth in online retail and in payment platforms. As investment in these areas continues, we can see a path toward greater improvements in productivity, which are essential if China is not to be bogged down in the middle-income trap.

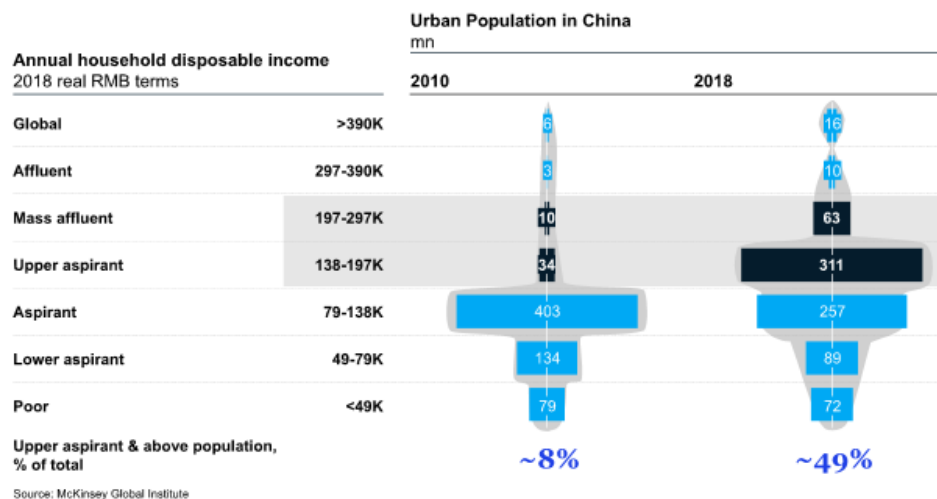
The Fund is set up to invest in A-shares, which opens up the universe to interesting ideas that are less prevalent in the offshore market. The companies in the onshore universe are, on average, growing earnings at a faster rate than in the offshore universe, which makes them particularly appealing. There are just over 100 A-shares which make it into our quality universe, with good diversification between sectors. Financials make up less than 10% of the A-share universe, compared to 37% of the Shanghai Composite. There is solid representation in our A-share universe from the Consumer Discretionary, Consumer Staples, Health Care, Industrials and Information Technology sectors.

Sector breakdown of the A-share universe



The Consumer Discretionary and Consumer Staples sectors are of particular interest to us, offering more companies with exposure to China's rapidly growing set of consumers. China's middle class has expanded enormously over the past decade, as the following chart shows. 277 million households that were earning at most \$11,000 in 2010 are now earning as much as \$20,000. In another instructive comparison, today there are 26 million households in China that are earning more than the average household in the UK¹. As it happens, in 2018 there were 27.6 million households in the UK. As more households enter the middle class, they will for the first time buy certain products that are common in developed markets. For example, small appliances only account for 19% of the overall consumer appliances market vs 29% in Japan and 37% in Korea. Many Chinese households will be buying their first food processor, noodle maker or toaster. This is the consumer story that we believe will play out in China in the coming years.

The middle class population is rising in China



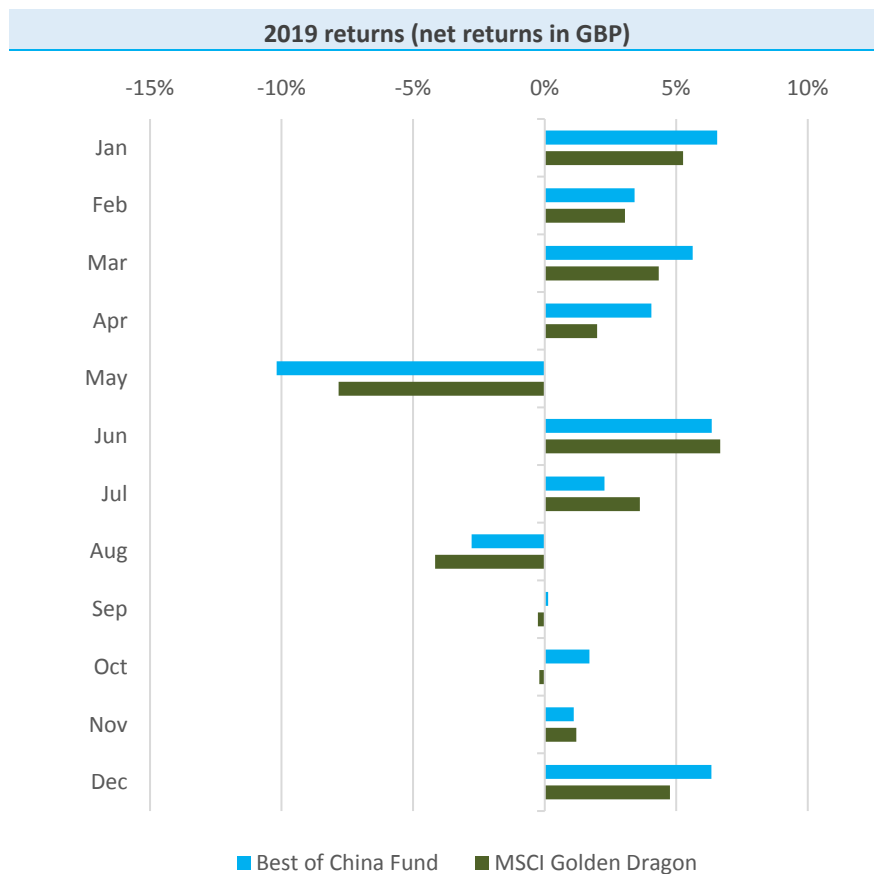
(Using an exchange rate as of 31/12/19, USDCNY 6.96, poor annual household disposable income is <\$7,040, lower aspirant \$7,040 - \$11,351, aspirant \$11,351 - \$19,828, upper aspirant \$19,828 - \$28,305, mass affluent \$28,305 - \$42,672, affluent \$42,672 - \$56,034, global >\$56,034)

¹ As of 31/12/19, GBPUSD was 1.3257 and USDCNY was 6.9632. According to the UK's Office for National Statistics, the median household disposable income was £29,400 in the financial year ending 2019. According to McKinsey, 26 million households earned at least RMB 297,000 which was equivalent to \$42,653 or £32,174.

In light of the recent period of weaker economic growth, we believe our approach of investing in firms with a track record of success along with a strong balance sheets is fully justified. For a business to enter the universe, it must generate a persistently high return of capital – an eight per cent return on capital annually for eight years – which demonstrates that it has some sort of competitive advantage. We seek companies that are not overburdened with debt, so look for businesses with a debt/equity ratio of less than one. This is important given the risks we have outlined. The Fund is equally weighted, setting it apart from the benchmark, which is much more concentrated than developed market benchmarks. This means the Fund is less exposed to stock-specific risk.

The onshore market is appealing as it contains many companies which are growing quickly. However, there have been cases where corporate governance standards have been lacking, leading to poor returns from certain companies. We think our focus on quality companies should serve us well in the A-share market as our universe is restricted to companies which have maintained a high return on capital. In our experience, these types of companies tend to be better run, making us more confident that the returns achieved in the past are likely to continue to be achieved in the future.

The following chart shows the Fund’s monthly performance.



The first quarter was strong for the Fund, with outperformance in each of the first three months of the year. Trade talks seemed to be progressing well and Chinese markets were strong, outperforming developed markets as well as other emerging markets. The strongest stocks in the first quarter tended to be those where the valuation recovered from sharp falls in the last quarter of 2018, such as New Oriental Education, Elite Material and Sino Biopharmaceutical.

The Fund outperformed in April, with Qualcomm the main contributor. Qualcomm settled its dispute with Apple, with the two agreeing a six-year licensing deal and Apple paying Qualcomm its dues which had been held back for the previous two years. Intel immediately announced it would withdraw from the 5G modem business and this reaffirmed our view that Qualcomm does indeed make the best modems. In May, trade talks broke down and Chinese markets were underperformers. Huawei was put on the US's Entity List and so the share prices of its suppliers sold off sharply. Among our five Chinese and Taiwanese smartphone suppliers, exposure to Huawei ranges from 5-15% and we stress that none are a pure play on Huawei's growth. Baidu also reported a weak set of results which we discuss in detail below.

In June we saw a rally in markets and Chinese markets were outperformers. The Fund's Industrial stocks, China Lesso and Yangzijiang Shipbuilding, were strong, along with Anhui Conch Cement. In July, the Fund underperformed in a rising market due to Noah and the weakness in Consumer Discretionary companies Li & Fung, Haier Electronics and Geely. Noah had a bad debt issue with one of its credit products, which will also be discussed in detail further on in this review.

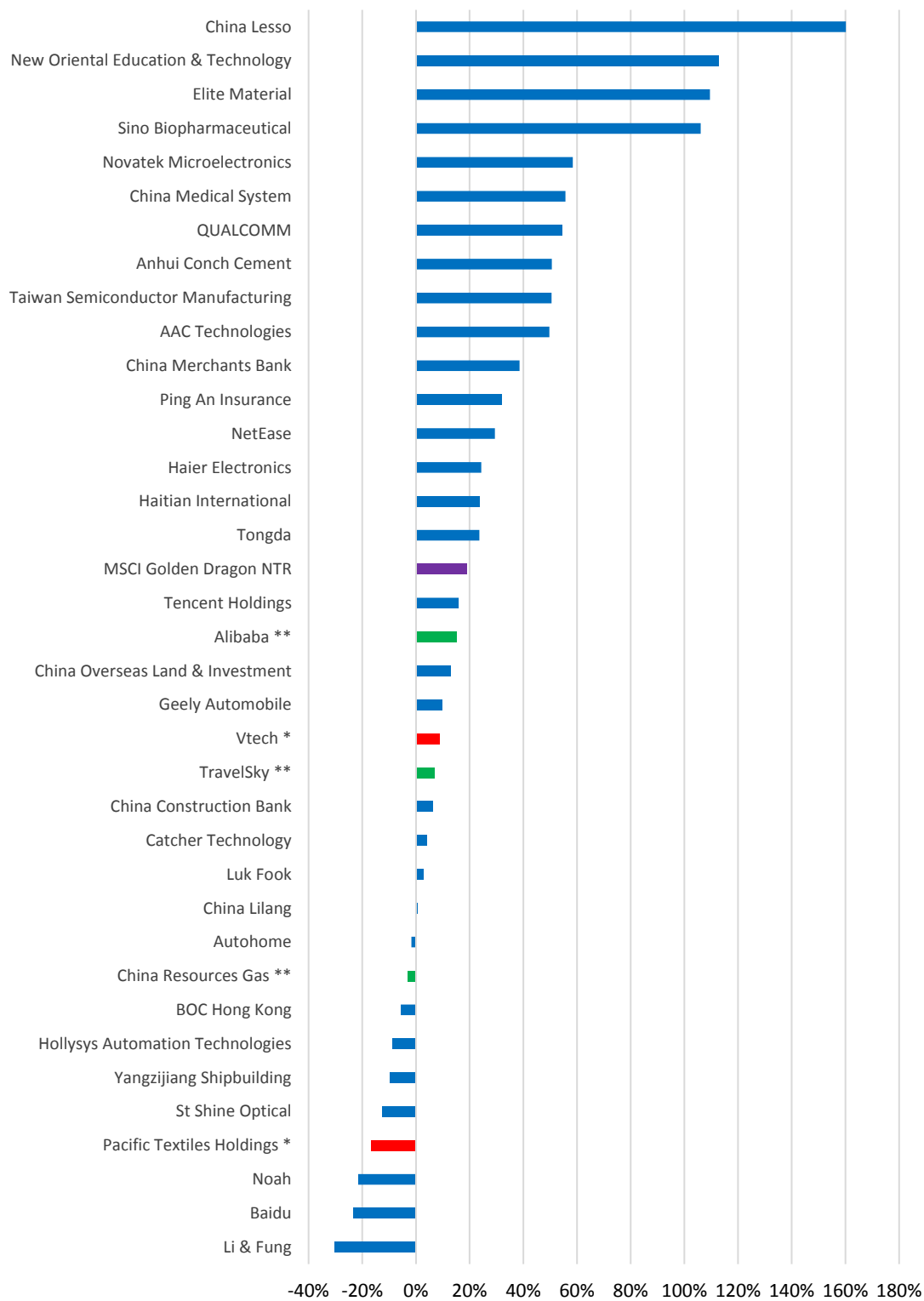
In August trade talks broke down, but the Fund outperformed in a falling market, supported by Chinese healthcare companies which reported better results. Many were worried over the effect of the government's push to cut the cost of drugs. The Fund's two Chinese pharmaceutical companies, Sino Biopharmaceutical and China Medical System, deal mostly with unbranded drugs and so particular attention was paid to their results. They both reported good growth in revenue and earnings, and their results overall were better than expected. In August, the benefit of the Fund's equal weighting was shown when Tencent fell by more than 10% in the month. At the time, the stock was worth 8-9% of the benchmark, while its neutral weight in the Fund was c.3%, protecting the fund on the downside.

In October, the US and China announced plans to sign a "Phase 1" deal. Better-than-expected sales of the latest iPhone also led to revised estimates of sales, benefiting component suppliers such as AAC Technologies, Tongda, Catcher and Novatek. TSMC announced it would increase capital expenditure by \$4bn to \$14-15 bn in 2019/2020 – this is the highest it has been since 2010. Healthcare stocks also continued to be strong after giving back some of their gains in September.

In December, the US and China agreed to a deal in principle. Chinese markets consequently rallied and in the portfolio we saw a sharp rise in the share price for Tongda Group, a manufacturer of casings for smartphones. Tongda was an early mover into what it calls 'glastic' casings (plastic casings which look like glass), and so in the ramp-up of production for these glastic casings, margins suffered. Earnings estimates fell sharply over the year, but a local broker note seems to have reminded the market that Tongda signed up Samsung as a new customer and may well be one of its largest casings suppliers. Tongda also has a chance to broaden its waterproof components business further into Apple's supply chain. AAC Technologies, China Lesso and Noah were also strong performers in the month.

Stock Performance

Individual stock performance in 2019 (total return GBP)



* sells, ** buys

LESSO

China Lesso is a manufacturer of plastic pipes, pipe fittings and building materials. The forward price/earnings multiple that the market had been assigning to the stock fell from a high of 8.5x in 2017 to just above 4.0 at the end of 2018. The company has consistently grown earnings since we launched the Fund, so to us it was puzzling that the market was assigning it such a low value. Over the course of 2019, the valuation rebounded. The business is expected to show rising earnings for 2019 as the government is investing in a number of infrastructure projects to reduce water pollution and is also pushing the country's energy consumption towards gas. Both factors should lead to greater demand for pipes.



New Oriental Education provides tutoring services in China. As for others in the Fund, the company's valuation fell sharply in 2018 and then partly recovered in 2019, along with strong earnings growth. Management is targeting revenue growth of approximately 30% in the next financial year. We think margins should rise over time as the business has pricing power; for example, in the summer promotion, the company doubled its prices compared to 2018 but still managed to grow enrolments by 4%. Secondly, efficiency should increase as learning centres which were opened in the past year or two are beginning to reach the target level of utilisation.



Elite Material manufactures copper-clad laminates which are used to make printed circuit boards (PCBs), specialising in halogen-free laminates, which are environmentally friendly. Elite regained its market share to provide substrate-like PCBs (SLPs) for the iPhone, which is a high-margin business. SLPs effectively increase the space of a PCB, increasing functionality and allowing for slimmer designs. Elite also began to ship SLPs to its Android customers, and margins rose as operating leverage turned from a headwind into a tailwind. Looking forward, the company does have exposure to datacentres and 5G base stations, which should be another source of earnings growth.



Sino Biopharmaceutical was one of the weaker stocks in 2018. The government has been cutting prices for drugs, with greater cuts for unbranded drugs. One of Sino Biopharmaceutical's best-selling products, Runzhong, saw its price cut significantly. However, the company's results over the year were better than expected. Runzhong sales have only fallen moderately given the price cut, implying significant growth in volume. Sales of oncology products have accelerated, driven by anlotinib, which was originally approved to treat small cell lung cancer, but is now also approved to treat soft tissue sarcoma, another type of cancer.



Novatek Microelectronic is making good progress with its Touch & Display Driver Integration (TDDI) product and has considerably increased its market share at the expense of Chinese competitors. This led to consistent earnings upgrades as Novatek's progress surprised the market. We expect rising adoption of TDDIs by smartphones which should provide a path for sustainable growth. Management also point to rising OLED driver demand and expect shipments in the first half of 2020 to be greater than all of 2019.

Laggards



Li & Fung had another weak year. Management argue that in a world where trade disputes may become more prevalent, there is still room for a sourcing agent such as Li & Fung. Furthermore they argue production will gradually diversify out of China and into emerging economies such as Bangladesh, Indonesia and Cambodia. The operating environment and quality of infrastructure is different in these countries and here Li & Fung's know-how could be useful. This sounds sensible, but the supply chain business continues to be weak due to the struggles the traditional retail sector is facing. The stock is very cheap for a reason and we await the next set of results to see if there is any sign of a turnaround.



Baidu has been spending a lot on content and traffic acquisition costs to build scale for iQiyi (the Chinese Netflix) and its newer apps such as Baijiahao (a newsfeed app). This made sense in the past, as the core business of advertising was highly cash generative, supporting these growing businesses. However during the first quarter the ad business unexpectedly slowed down. Management believed advertising inventory in the market increased towards the end of the first quarter, lowering prices. Since then, the growth in costs slowed considerably as the company ensured marketing met "stringent ROI criteria". The focus shifted more towards in-app monetisation and several encouraging examples were given. For example, a well-known e-commerce company used Baidu's Smart Mini Programs (a stripped-down version of its app accessible within Baidu) to give away coupons. It saw its sales conversion rate improve 2.5x compared to its HTML page. Baidu now thinks demand for advertisements is stabilising and though the business faces challenges, we think the share price reflects excessive pessimism.



Noah announced that one of its credit funds was in default. The fund was worth 2% of Gopher's (Noah's asset management business) AUM and there is no indication that Noah itself is responsible for reimbursement. Noah is sensibly stepping away from distribution of single-counterparty credit products, where the funds are lent to a single entity, and moving into offering fixed income products with greater underlying diversification. This is in preparation for new rules coming into effect in the coming years which will increase regulation and oversight. Publicly offered funds will only be able to invest in standardised products. The holdings of a fund must be entrusted to an independent custodian and must be transacted on approved exchanges. Financial products will

eventually have to regularly disclose their net asset value (NAV), moving China's fund industry closer to developed market practices.



St Shine, a manufacturer of contact lenses, is seeing operational leverage work against it. It built new capacity to take advantage of rising orders from Hubble, an American startup. Hubble grew rapidly in its first few years, but growth has moderated and this has fed through to St Shine, which is seeing new capacity sit idle. SEED, a major customer in Japan, is also seeing some weakness and recently lowered its three-year sales growth target to 8% a year. China has recently become a bright spot for the company and so there is the possibility of capacity being diverted away from Hubble and towards the Chinese.



Yangzijiang Shipbuilding (Holdings) Ltd.
揚子江船業(控股)有限公司

Yangzijiang Shipbuilding's share price fell when the chairman was linked to a mainland China investigation. Nothing was found and he is now back at the company. In the interim period the company won orders for five new vessels – three of 82,000 dead weight tonnes (DWT) and two of 325,000 DWT, worth \$395 million. The change in emissions rules from the International Maritime Organisation (IMO) to limit the permitted sulphur content in shipping fuel has resulted in a surge of enquiries, according to the company, including from Japanese shipping companies.

Portfolio Changes

The Fund sold its positions in Pacific Textiles and VTech.



Pacific Textiles is a manufacturer of knitted fabrics which began in China but, like its peers, has diversified into Vietnam to take advantage of lower labour costs. The expansion into Vietnam has not been a success. Problems have plagued the company's factory in the country, ranging from protests over the way the land was acquired to a shutdown of the factory so new water pipes could be installed to meet tougher environmental regulations. We believed the business would find it difficult to grow revenue in the medium term.



VTech is well known for its toys and electronic learning products, but also makes phones and is engaged in contract manufacturing services. Though VTech's Asian business is growing rapidly, we thought persistent weakness elsewhere in the business meant the prospect of earnings growth was remote. The residential phones business is in a long-term structural decline. Logistics issues in Europe and tough market conditions meant sale of Vtech branded toys fell. We felt that there were better opportunities elsewhere in the universe with a much greater likelihood of earnings growth.

The Fund added China Resources Gas, TravelSky and Alibaba.



China Resources Gas (CRG) is one of the few utility companies that make it into our universe. Its focus is on the provision of gas to urban household customers. While other gas businesses in China seek to become involved in the wholesale gas market or expand into rural areas, we like CRG for its focus on domestic urban and industrial customers. There is a long-term drive in China to support wider use of gas in place of coal for electricity production. CRG benefits on the back of this through the increasing supply of gas nationwide and is tapping into this through the so-called 'last mile' connection. It is possible the coming months may see slower growth from its industrial customer base, but we think that there is a structural growth story here and that conditions remain supportive for CRG's margins.



TravelSky supplies data for China's aviation industry. Its services include real-time flight reservation information and ticket prices, inventory control, airport passenger processing and Global Distribution Service (GDS). Due to local regulations, it has a monopoly over the GDS market in China and no foreign competitors are allowed to enter this business. In China, less than 10% of people have a passport and as the economy continues to grow, we expect the demand for air travel to accelerate and for TravelSky to benefit as a result.



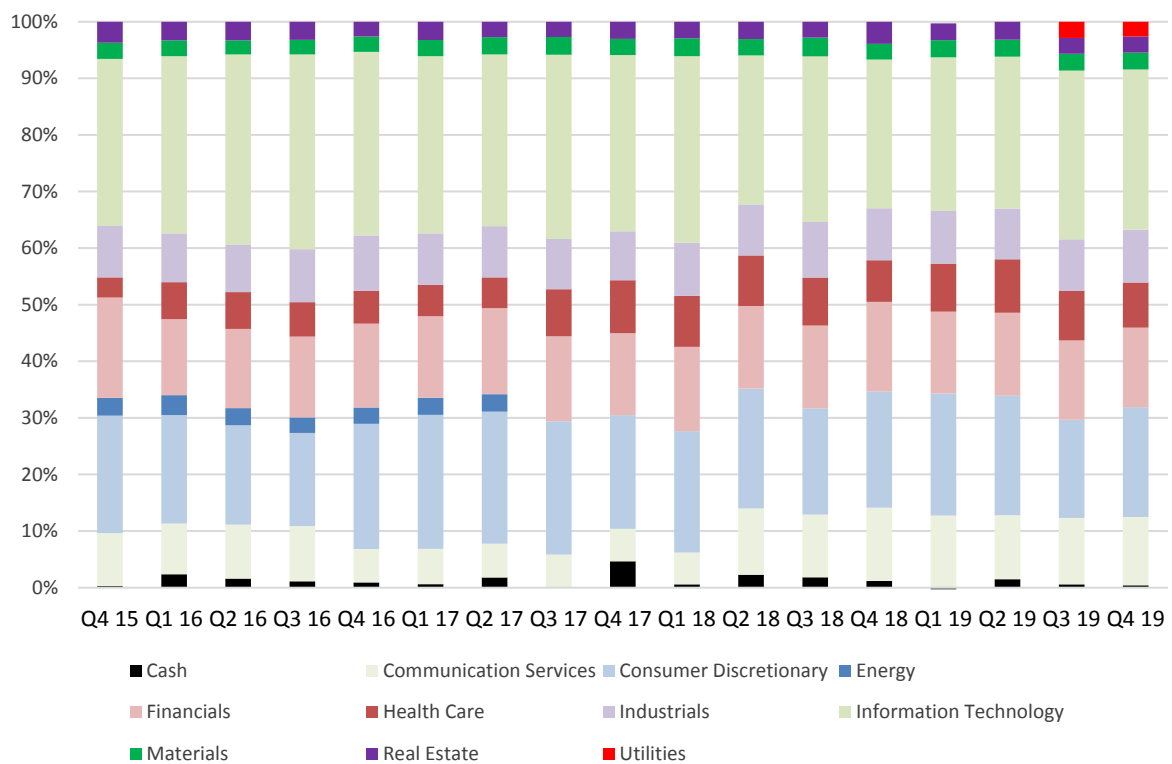
Alibaba is China's largest e-commerce company and one of the largest of its kind in the world. Despite a slowing economy, e-commerce is a bright spot and has its own secular growth drivers. Alibaba's offerings are integral in most Chinese consumers' lives - Tmall and Taobao (two of its most popular platforms) are among the 10 most visited sites in the world. At least 600 million people actively use Alibaba's payment app, Alipay. Alibaba also owns several other e-commerce sites including Kaola (cross border e-commerce in China) and Lazada (leading e-commerce site in South East Asia), while it owns a small stake in Tokopedia (Indonesian e-commerce). The

addition of Alibaba gives the Fund exposure to e-commerce, which was lacking, at a more reasonable price than has been offered in the past. Relative to its competition, Alibaba is, in our view, much higher quality in the persistence of its return on capital.

Portfolio Positioning

Exposure to Utilities increased by one position. The Fund is overweight to the Consumer Discretionary, Information Technology and Health Care sectors. It is underweight Financials, Real Estate and Communication Services. Note that it has no exposure to companies in the Energy and Consumer Staples sectors.

Fund breakdown by sector



Outlook

Consensus earnings estimates for the portfolio indicate a compound average annual growth rate in profits for the three years 2018-2021 of 9.0%. This is the product of estimated earnings growth for the portfolio's holdings of 4% for full-year 2019 followed by 11% for 2020 and 13% for 2021. These estimates are, of course, likely to change significantly in the months ahead.

It is undeniable that China is experiencing downward pressure on economic growth. It is important, therefore, that we remain vigilant on valuations and ensure that especially for potential new entrants into the fund growth expectations are reasonable and we do not overpay for growth. A good example is the Consumer Staples sector, where very few offshore companies make it through into our quality universe. In the onshore market, there are more companies which pass the quality test, but valuations are at their highest since 2010 and forecasted returns on capital are well above their long and short-term averages. Since the A-share market is dominated by retail investors, companies that do not meet expectations can see significant multiple de-ratings and this is something we would like to avoid in the Fund.

On the manufacturing side, the new 5G telecom standard is likely to have a big impact. Initially we should see this among the component manufacturers, because the new standard requires an upgrade to the whole system from transmission through to reception. However, over time, the application of this technology opens up opportunities for commercial and industrial users as well as consumers. We think this process is one that will last for several years (i.e. a secular, rather than cyclical uplift).

Domestic Chinese A-shares are as yet an untapped resource for us in this strategy, but a large number of companies are of undoubted interest to us. Our approach means that we think we can evolve this strategy to incorporate A-shares while maintaining our requirement for quality management as evidenced by above-average returns on capital.

For more information

Read more on the Fund

Visit our website for more information on the Fund and to register for regular email updates on its performance and portfolio.



Keeping you updated

Detailed portfolio and performance analysis



White papers

Our thoughts on a range of topics including: the importance of dividends; whether to meet company management; concentrated portfolio; the effectiveness of economic modelling.

To sign up for updates or search the archive, visit [guinnessfunds.com](https://www.guinnessfunds.com)

or contact our [sales team](#)

Contact our sales team

Our sales team are on hand to explain the Fund and its investment process in more detail and answer any queries you might have.



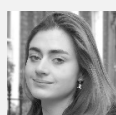
Deborah Kay
Head of Sales and Marketing

+44 (0)20 7222 2037
deborah.kay@guinnessfunds.com



Charlie Riddell
Sales Manager

+44 (0)20 7222 3473
charlie.riddell@guinnessfunds.com



Flurry Wright
Sales Manager

+44 (0)20 7222 3714
flurry.wright@guinnessfunds.com



Pdraig Staunton
IFA Sales Manager

+44 (0)20 7042 6525
padraig.staunton@guinnessfunds.com



Alex Hall
IFA Sales Manager

+44 (0)20 7042 6525
alex.hall@guinnessfunds.com

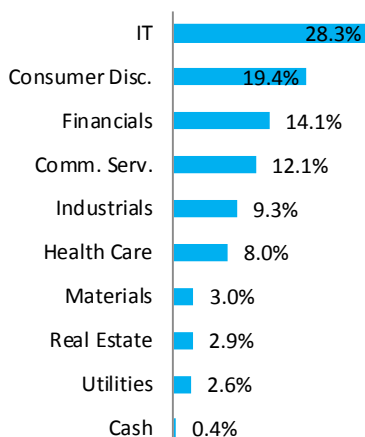
PORTFOLIO

31/12/2019

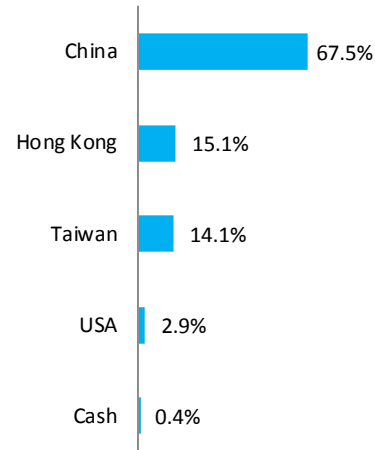
Fund top 10 holdings

Tongda Group Holdings	4.2%
AAC Technologies	4.1%
China Lesso Group	3.5%
Noah Holdings	3.3%
Alibaba Group	3.2%
Autohome	3.2%
Tencent Holdings	3.1%
Taiwan Semiconductor	3.1%
Anhui Conch Cement	3.0%
Haitian International Hol	3.0%
% of Fund in top 10	33.7%
Total number of stocks	34

Sector analysis



Geographic allocation



PERFORMANCE

31/12/2019

Annualised % total return from launch (GBP)

Fund	14.9%
MSCI Golden Dragon Index	16.6%
IA China/Greater China sector average	15.0%

Discrete years % total return (GBP)

	Dec '15	Dec '16	Dec '17	Dec '18	Dec '19
Fund	-	22.7	38.2	-20.3	26.0
MSCI Golden Dragon Index	-2.1	25.7	31.3	-9.5	19.0
IA China/Greater China sector average	0.9	18.5	35.9	-14.2	22.2

Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund	6.3	26.0	26.0	38.8	-	75.4
MSCI Golden Dragon Index	4.9	19.0	19.0	41.4	74.2	86.3
IA China/Greater China sector average	4.6	22.2	22.2	42.4	70.3	76.2

RISK ANALYSIS

31/12/2019

Annualised, weekly, from launch on 15.12.15, in GBP	Index	Sector	Fund
Alpha	0.00	-1.51	-1.33
Beta	1.00	0.98	1.00
Information ratio	0.00	-0.43	-0.26
Maximum drawdown	-17.78	-21.67	-25.74
R squared	1.00	0.94	0.90
Sharpe ratio	0.74	0.61	0.61
Tracking error	0.00	4.53	6.00
Volatility	17.69	17.83	18.60

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 (Z class, 0.74% OCF). Fund launch date: 15.12.2015.

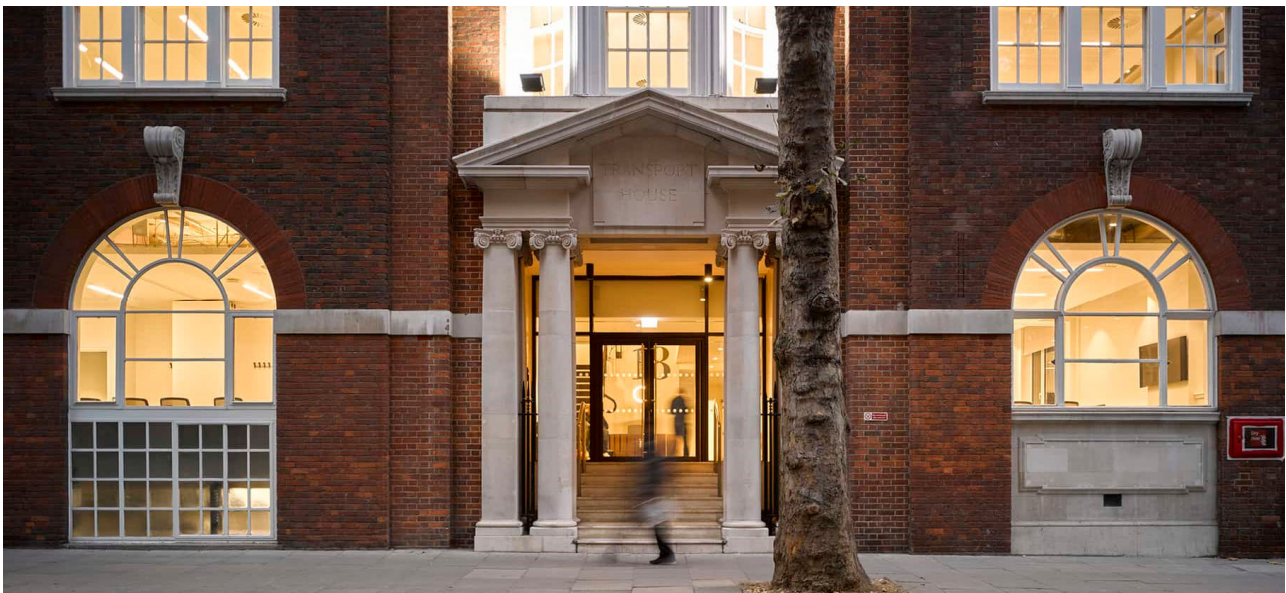
Guinness Asset Management provides a range of long-only actively managed funds to individual and institutional investors. Founded in 2003, Guinness is independent and is wholly owned by its employees.

We believe in in-house research, intelligent screening for prioritisation of research and well-designed investment processes. We manage concentrated, high conviction portfolios, with low turnover and no benchmark constraints. Since our establishment we have developed a variety of specialisms in global growth and dividend funds, global sector funds and Asian regional and country funds. The Guinness equity funds sit within an Irish-listed OEIC. They are managed alongside a range of similar SEC-registered funds offered to US investors by our US sister company, Guinness Atkinson Asset Management Inc. We also offer an Enterprise Investment Scheme (EIS service) investing in UK-based renewable energy projects and AIM-listed companies.

Our Products

<p>Equity Income</p>	<p>Global Equity Income Asian Equity Income European Equity Income UK Equity Income Emerging Markets Equity Income</p>
<p>Growth & Innovation</p>	<p>Global Innovators Best of China Global Equity US Equity</p>
<p>Specialist</p>	<p>Global Energy Sustainable Energy Global Money Managers</p>

Contact us



Tel
+44 (0) 20 7222 5703

Email
info@guinnessfunds.com

Web
guinnessfunds.com

18 Smith Square, London SW1P 3HZ

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 from the website www.guinnessfunds.com, or free of charge from:-

- the Manager Link Fund Manager Solutions (Ireland) Ltd, 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.

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'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.

GUINNESS
ASSET MANAGEMENT

Tel: +44 (0) 20 7222 5703

Email: info@guinnessfunds.com

Web: guinnessfunds.com