Guinness Greater China

Investment Commentary – June 2023

RISK

This is a marketing communication. Please refer to the prospectus, KIDs and KIIDs 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	15.12.2015
Index	MSCI Golden Dragon
Sector	IA China & Greater China
Managers	Sharukh Malik CFA Edmund Harriss
Irish Domiciled	Guinness Greater China Fund

OBJECTIVE

The Guinness Greater 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.

CONTENTS

COMMENTARY

In May, the Guinness Greater China Fund (Y class, GBP) fell 5.9% while the benchmark, the MSCI Golden Dragon Net Total Return Index (MSCI Golden Dragon Index) fell 2.7%, and the MSCI China Net Total Return Index (MSCI China Index) fell 7.0%.

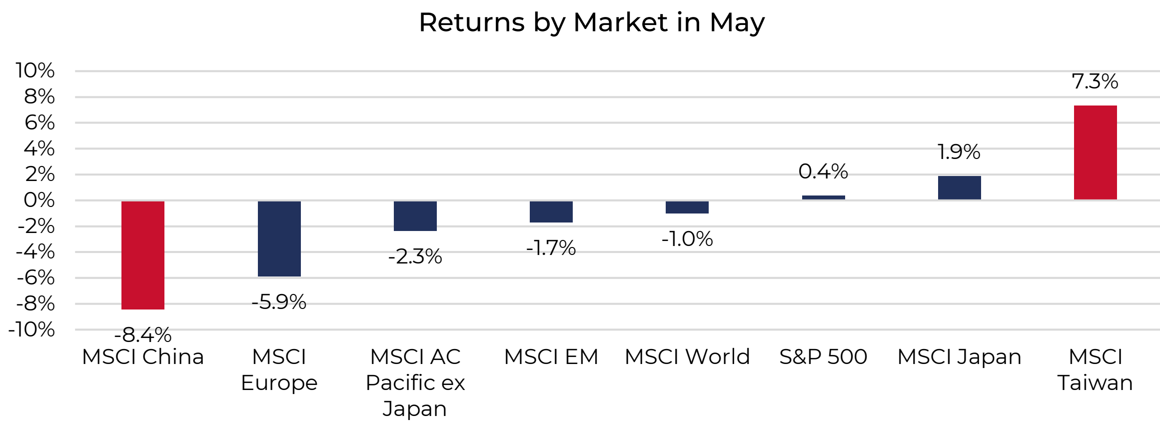
We visited China to meet companies held in the Fund. We received updates on the latest developments for each company and spent time engaging with companies on areas of improvement, particularly with respect to ESG. In summary, it was very encouraging to see that our companies were receptive to our ideas and were very keen to understand the perspectives of foreign shareholders.

As a result of our trip, we noted the ongoing second wave of covid which is likely to have a short-term impact on the economy. As we have seen in all other countries, each new wave of covid places a lower strain on the healthcare system and the economy.

China has just lowered the reverse repo rate, the main short-term policy interest rate, by 0.1%. This marked the first cut in 10 months and is likely to lead to cuts in longer-term policy rates. In our view, this stimulus is a sign that policymakers acknowledge the macro data has been weaker than expected. We believe that weakness in manufacturing demand as well the slow property sector are the areas that would benefit from greater policy support.

MACRO REVIEW

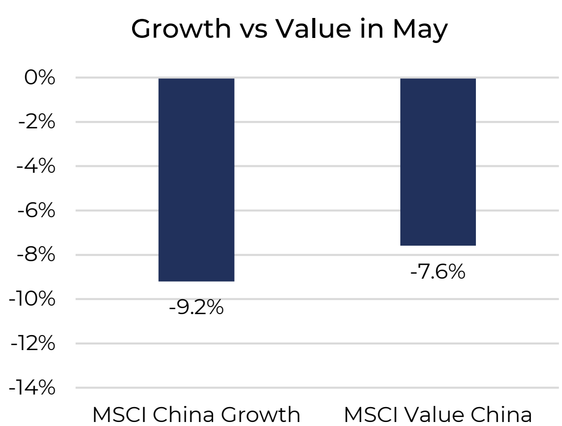
(Performance data in the section in USD terms unless otherwise stated)

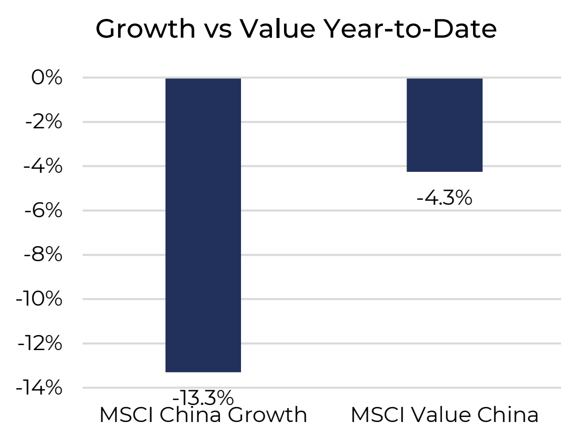


(Data from 30/04/23 to 31/05/23. Returns in USD, source: Bloomberg, Guinness Global Investors calculations)

In May, the MSCI China Index fell by 8.4% compared to the MSCI World Index which fell 1.0%. The best performing sectors in China were Utilities (total return -3.8%), Financials (-5.5%) and Communication Services (-7.7%). In a weak environment, Utilities outperformed as a defensive sector. Financials did well as deposit rates were cut, which is margin accretive for the banks. Telecom companies, which are lower-rated state-owned enterprises (SOEs), also did well as defensive ideas and potential beneficiaries of SOE reforms. The weakest sectors were Real Estate (-15.8%), Materials (-13.0%) and Health Care (-10.2%). Real Estate was weak as new property starts were fewer than expected. Healthcare weakness was driven by unprofitable biotech companies, which we do not invest in.

As we show below, value stocks outperformed in May, falling 7.6% compared to the growth index which fell 9.2%. This mirrors the trend we have seen year-to-date, where value stocks have fallen by 4.3% while growth stocks have fallen by 13.3%. The Fund invests in companies which give exposure to the structural growth themes in mainland China, and so the Fund's 7.2% decline in May means it outperformed both the growth and value indices.





(Left chart: data from 30/04/23 to 31/05/23. Right chart: data from 31/12/22 to 31/05/23. Source: Bloomberg, Guinness Global Investors calculations)

In contrast, the MSCI Taiwan Index was by far the strongest market in May, rising 7.3%. Strong demand for stocks related to artificial intelligence (AI) led the rally for the Taiwanese tech sector. Though Taiwan has little exposure to direct AI companies, the market has may companies which produce the required hardware. For example, Elite Material (held in the Fund) benefits from rising demand for AI dedicated servers, which use around 4x the copper clad content than normal servers.

The Fund targets the structural growth drivers in mainland China but may allocate to stocks in the Taiwanese market which meet either of the following two criteria:

- Significant exposure to China. We define this as more than 50% of sales from China or more than 50% of assets in China.
- The semiconductor industry. While there are semiconductor companies in mainland China, often the quality or the price of the companies can be unattractive relative to the opportunities in Taiwan. In Taiwan there can be many good quality, growing businesses trading at more reasonable prices.

The Fund holds two positions in Taiwan, accounting for c.6% of the Fund. On the other hand, Taiwan accounts for 32% of the MSCI Golden Dragon Index. Therefore the Fund captured much less of the rally in Taiwan than the MSCI Golden Dragon Index in May, explaining much of the Fund's underperformance against the benchmark. Note the Fund outperformed the MSCI China Index in May. Relative to the MSCI China Index, areas which aided performance were:

- Underweight in the large internet platform stocks – Tencent, Alibaba and Meituan.
- The underweight to Materials and Energy, where the Fund has no exposure.

Areas which detracted from performance were:

- Stock selection within Healthcare, where our pharmaceutical companies were weak.
- Stock selection within Financials, where Hong Kong Exchanges & Clearing and our insurers were underperformers.

CHINA VISIT

In May, we travelled to China to visit some of the holdings in the both the Guinness Greater China Fund and the Guinness China A Share Fund. The aim was to hear about the latest business developments and more importantly to engage with our holdings. Particularly with respect to ESG, Chinese companies have more room to improve when compared to developed market companies. We took the opportunity to suggest areas of improvement across environmental, social and governance factors. In summary, it was very encouraging to see that our companies were receptive to our ideas and were very keen to understand the perspectives of foreign shareholders. We summarise below the meetings we had for the companies held in the Greater China Fund.

Venustech is a large cybersecurity company. China Mobile, which is due to become its largest shareholder, recently received approval from the relevant authority to complete the deal. Venustech is now in the process of receiving approval from the Shenzhen Stock Exchange to complete the private placement, aiming to complete the deal later this year. We spent most of our meeting suggesting improvements Venustech could make in its disclosures. Since Venustech is a cybersecurity company, labour is the main cost, and we felt the company could disclose much more on how it trains its staff and keeps them content. We also suggested improvements to governance, including greater independence on the audit committee and supervisory board.

Shenzhen Inovance Technology is a manufacturer of industrial equipment with a speciality in inverters, servos and robotic equipment. We had the opportunity to visit the company's impressive showroom, where we saw the range of products sold by Inovance. The most impressive products were their six-axis industrial robots, with which the company aims to replicate its success in SCARA (Selective Compliance Assembly Robot Arm). Inovance is one of the better A share companies from an ESG perspective with good disclosure which notably improved in the set of reports covering 2022. We suggested that Inovance make the audit committee fully independent and that it should sign up to the UN Global Compact.

Shenzhen H&T Intelligent Control is a manufacturer of controllers for household appliances and power tools. (A controller is the chip that processes an input into the output of the device). H&T's customers include well-known brands such as Electrolux, Whirlpool, Siemens, TTI (Techtronic), Hisense, Haier and Supor. As H&T's customers are diversifying their suppliers from a geographic perspective, it has set up production bases in Vietnam and Romania. This is an important point – while foreign companies are diversifying from China, Chinese companies are also willing to diversify with them. We made a range of suggestions on ESG. For example, we suggested H&T disclose the opportunities available in electric vehicles and energy storage solutions. We also suggested that they disclose more policies related to labour, namely how labour relations are managed and the training and development opportunities available to staff. H&T has an anti-corruption policy which it maintains internally, and we suggested that it disclose the policy to shareholders. We were given a tour of some of the production facilities, which were highly automated. Of note, the company uses robots to move chips in certain parts of the facilities.

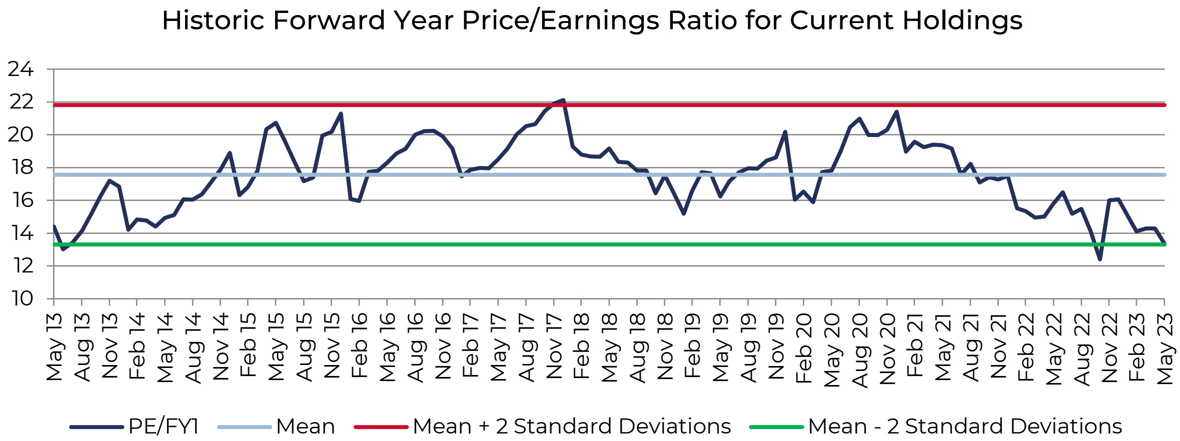
China Medical System (CMS) is a pharmaceutical company which currently sources all of its revenue from generic products but is beginning the shift towards innovative drugs. Unlike other companies which are aiming to develop new drugs from scratch, CMS is acquiring products after proof of concept. It is looking for drugs with differentiation, a large addressable market and most importantly, a high expected return on investment. This year, CMS has received approval for three innovative drugs which are expected to start contributing to revenue in 2024. On ESG, CMS's disclosure is relatively good, and so our main suggestion related to capital management. Like many companies listed in Hong Kong, CMS asks shareholders for the right to issue shares without pre-emptive rights up to a limit of 20% of the issued share capital. We feel 20% is excessive and can encourage undisciplined capital raising. CMS was open to lowering the limit, for which we said 10% was more reasonable.

OUTLOOK

China's rebound post-reopening has been weaker than the market was expecting, but it is important to note where the weakness is coming from. It is predominantly weakness from the industrial sector, the property market and exports. Industrial production grew 5.6% year-on-year in April, benefiting from a low base. On a month-on-month basis, industrial production fell 5.7%. But producer prices fell by 3.6%, leading to lower industrial profits. In the property market, we have now seen three consecutive months of small price increases, with a 0.3% month-on-month rise in April. New home sales and completion data improved, but new home starts fell 24% in April on a three-month rolling basis. On the other hand, the consumption data is positive, though not as strong as initially expected. Retail sales grew by 18.4% in April.

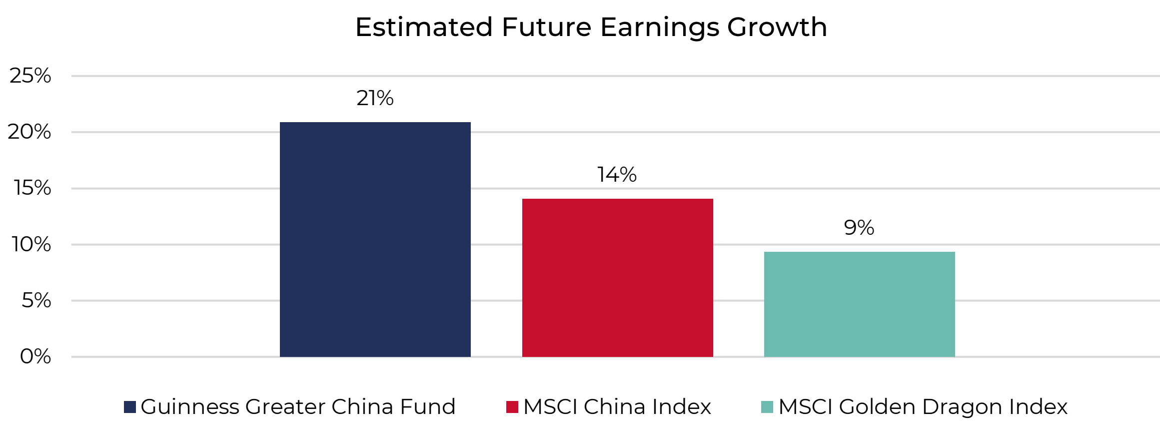
The People's Bank of China recently cut the seven-day repo rate, the main short-term policy rate, by 0.1%. It is expected that the medium-term lending facility rate and loan prime rate will follow. Though a 0.1% cut is small, we argue the cut is an important signal, showing that policymakers understand the rebound has been weaker than expected. A report from Bloomberg suggests that officials have been meeting economists and business leaders to debate the best stimulus measured for the economy. We believe further support for the property market is needed to boost overall economic growth, since property and its related sectors likely account for 20% of GDP. We also acknowledge that policymakers have a tricky balancing act, as if they loosen policy by too much, China will be at risk of another boom-bust cycle in the property market, which would further increase its debt profile. Targeted support for high-quality property developers, rather than broad-based support for all, is an essential part of the solution.

We repeat our view that the Fund is trading at a very attractive valuation for the growth that is on offer. The portfolio is trading on a forward year price/earnings ratio of 13.3x. For the current holdings in the Fund, this valuation is two standard deviations below its 10-year average. The Fund is now trading at a cheaper price than it was during the initial covid outbreak and the US-China trade war.



(Source: MSCI, Bloomberg, Guinness calculations. Data as of 31/05/2023. 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 argue that over the medium to long term, the driver of returns in China is likely to be earnings growth. Based on consensus analyst estimates, the Fund is expected to grow earnings by 21% a year over the next two years, compared to 14% growth a year for the MSCI China Index and 9% growth a year for the MSCI Golden Dragon Index. The Fund's growth also compares favourably to the MSCI World Index and S&P 500 Index, where consensus two-year growth rates in earnings per share are 5% and 4% respectively.



(Source: MSCI, Bloomberg, Guinness calculations. Data in USD. Data as of 31/05/2023. 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 GREATER CHINA FUND - FUND FACTS

Fund size	$8.8m
Fund launch	15.12.2015
Benchmark	MSCI Golden Dragon TR

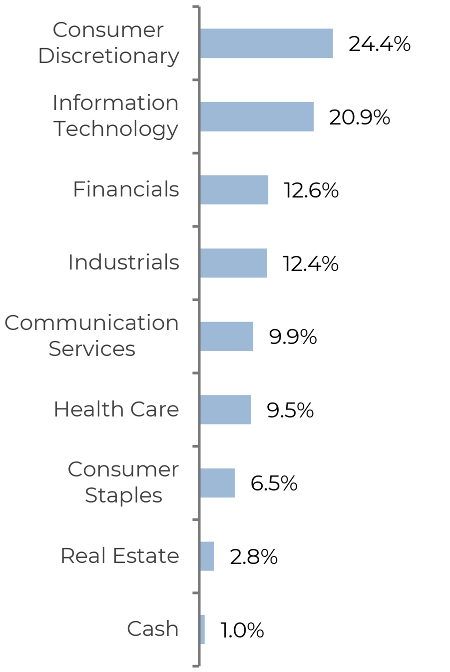
GUINNESS GREATER CHINA FUND - PORTFOLIO

Top 10 holdings

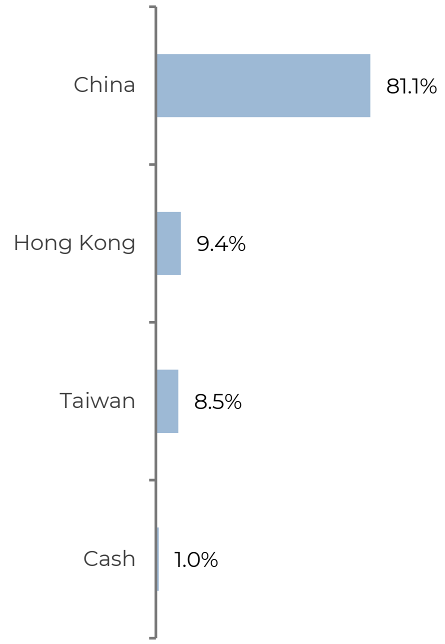
Elite Material Co Ltd	4.4%
TSMC	4.1%
NARI Technology Co Ltd	3.4%
NetEase Inc	3.4%
Baidu Inc	3.3%
Venustech Group Inc	3.3%
Alibaba Group Holding Ltd	3.3%
H&T INTELLIGENT	3.3%
Geely Automobile Holdings Ltd	3.3%
Chongqing Fuling Zhacai	3.3%

Top 10 holdings	35.2%
Number of holdings	32

Sector



Country



Past performance does not predict future returns.

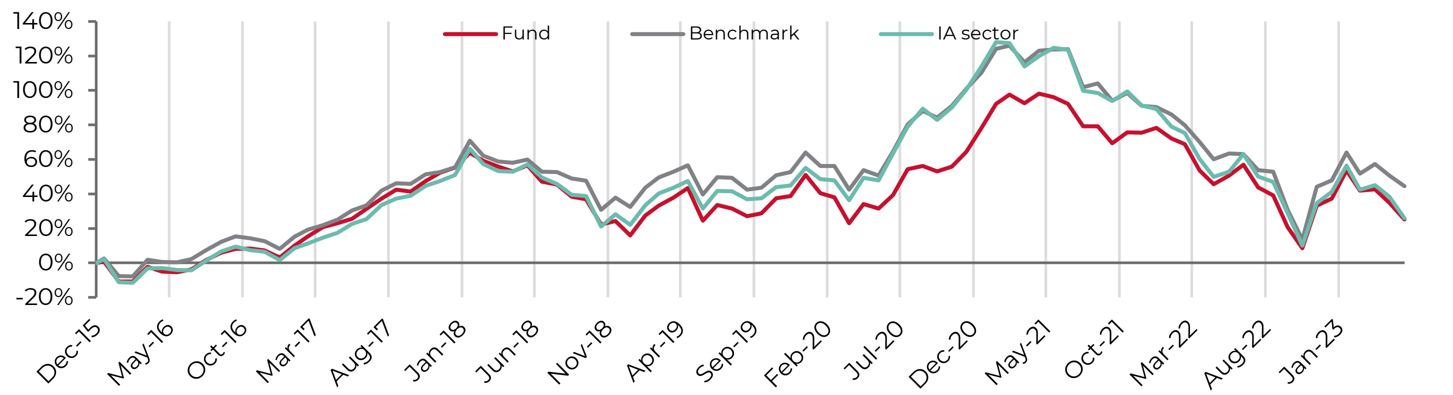
GUINNESS GREATER CHINA FUND - CUMULATIVE PERFORMANCE

Total Return (GBP)	1 Month	YTD	1 yr	3 yr	5 yr	10 yr
Fund	-5.9%	-11.5%	-15.5%	-5.1%	-14.1%	-
MSCI Golden Dragon TR	-2.7%	-5.1%	-10.0%	-4.3%	-2.9%	-
IA China/Greater China TR	-7.6%	-13.3%	-16.2%	-15.0%	-13.9%	-
Total Return (USD)	**1 Month**	**YTD**	**1 yr**	**3 yr**	**5 yr**	**10 yr**
Fund	-7.2%	-8.8%	-16.9%	-4.9%	-20.1%	-
MSCI Golden Dragon TR	-4.0%	-2.2%	-11.5%	-4.0%	-9.6%	-
IA China/Greater China TR	-8.9%	-10.7%	-17.6%	-14.8%	-19.8%	-
Total Return (EUR)	**1 Month**	**YTD**	**1 yr**	**3 yr**	**5 yr**	**10 yr**
Fund	-3.9%	-8.7%	-16.5%	-0.7%	-12.4%	-
MSCI Golden Dragon TR	-0.6%	-2.1%	-11.1%	+0.1%	-1.0%	-
IA China/Greater China TR	-5.7%	-10.6%	-17.2%	-11.1%	-12.1%	-

GUINNESS GREATER CHINA FUND - ANNUAL PERFORMANCE

Total Return (GBP)	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Fund	-13.3%	+1.0%	+14.2%	+25.3%	-20.7%	+37.6%	+22.1%	-	-	-
MSCI Golden Dragon TR	-12.6%	-8.6%	+24.2%	+19.0%	-9.5%	+31.3%	+25.7%	-	-	-
IA China/Greater China TR	-16.0%	-10.7%	+33.6%	+22.2%	-14.2%	+35.9%	+18.5%	-	-	-
Total Return (USD)	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
Fund	-23.0%	+0.1%	+17.9%	+30.4%	-25.3%	+50.4%	+2.3%	-	-	-
MSCI Golden Dragon TR	-22.3%	-9.5%	+28.2%	+23.8%	-14.8%	+43.8%	+5.4%	-	-	-
IA China/Greater China TR	-25.4%	-11.5%	+37.8%	+27.1%	-19.2%	+48.7%	-0.7%	-	-	-
Total Return (EUR)	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
Fund	-17.9%	+7.7%	+8.1%	+32.8%	-21.5%	+32.3%	+5.5%	-	-	-
MSCI Golden Dragon TR	-17.3%	-2.6%	+17.6%	+26.1%	-10.5%	+26.3%	+8.6%	-	-	-
IA China/Greater China TR	-20.5%	-4.8%	+26.4%	+29.4%	-15.1%	+30.6%	+2.3%	-	-	-

GUINNESS GREATER CHINA FUND - PERFORMANCE SINCE LAUNCH (USD)



Source: FE fundinfo to 31.05.23. 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 current OCF for the share class used for the fund performance returns is 0.89%. Returns for share classes with a different OCF will vary accordingly. Transaction costs also apply and are incurred when a fund buys or sells holdings. The performance returns do not reflect any initial charge; any such charge will also reduce the return.

IMPORTANT INFORMATION

Issued by Guinness Global Investors, a trading name of Guinness Asset Management Limited, which is authorised and regulated by the Financial Conduct Authority.

This report is designed to inform you about Guinness Greater 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.

Documentation

The documentation needed to make an investment, including the Prospectus, the Key Investor 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

Telephone calls will be recorded and monitored.