Guinness China A Share

Investment Commentary – October 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. The Fund invests only in stocks of companies that are based in, or with significant business activities in China; it is therefore susceptible to the performance of that region. In addition, at least 80% of the assets will be in China A shares, which have a greater participation by retail investors than other markets, so its performance may be more volatile. 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
EU 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.

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COMMENTARY

In the third quarter, the MSCI China A Onshore Net Total Return Index (MSCI China A Onshore Index) fell by 4.6% in USD.

The best performing stocks in the Fund in the quarter were Suofeiya Home Collection, Shengyi Technology and Hongfa Technology.

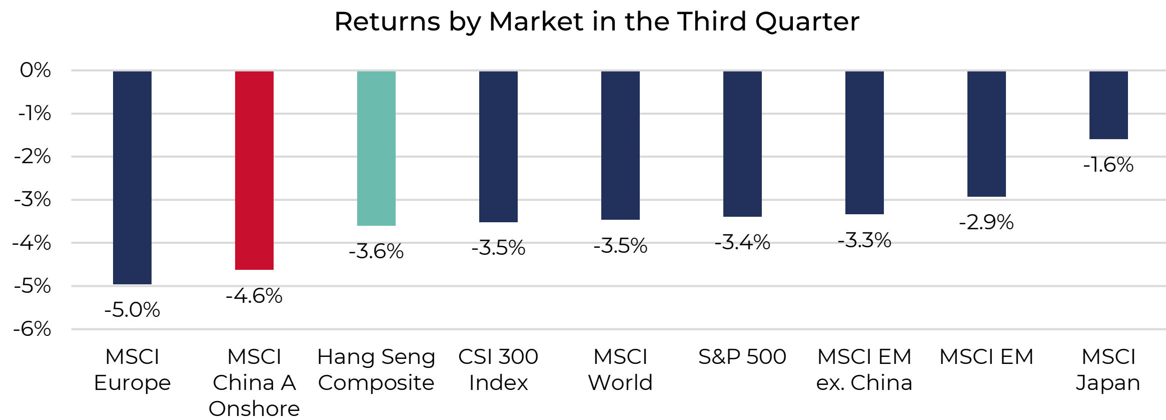
The weakest stocks in the Fund in the quarter were Zhejiang Jingsheng Mechanical, Xiamen Faratronic and Wuxi Lead Intelligent Equipment.

The Fund is trading on a forward year price earnings ratio of 19.5x. The current set of holdings is trading at one of the lowest levels seen in the past decade.

Over the past 10 years, our holdings have in aggregate grown earnings by 15% a year. Based on consensus analyst estimates, the Fund is expected to grow earnings by 23% a year over the next two years.

MARKET COMMENTARY

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

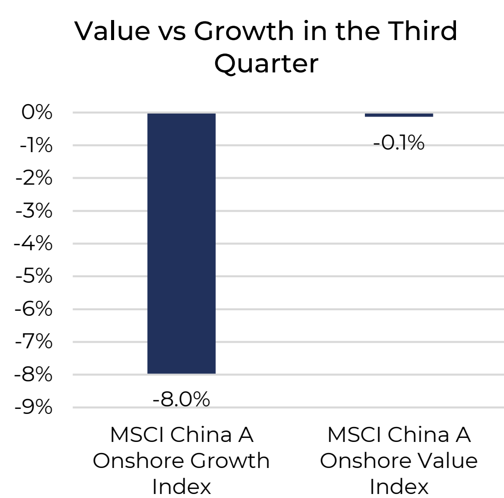


(Data from 30/06/23 to 30/09/23, returns in USD, source: Bloomberg, Guinness Global Investors calculations)

In the third quarter, the MSCI China A Onshore Index fell by 4.6%. This compared to the 3.5% fall seen for the MSCI World Index.

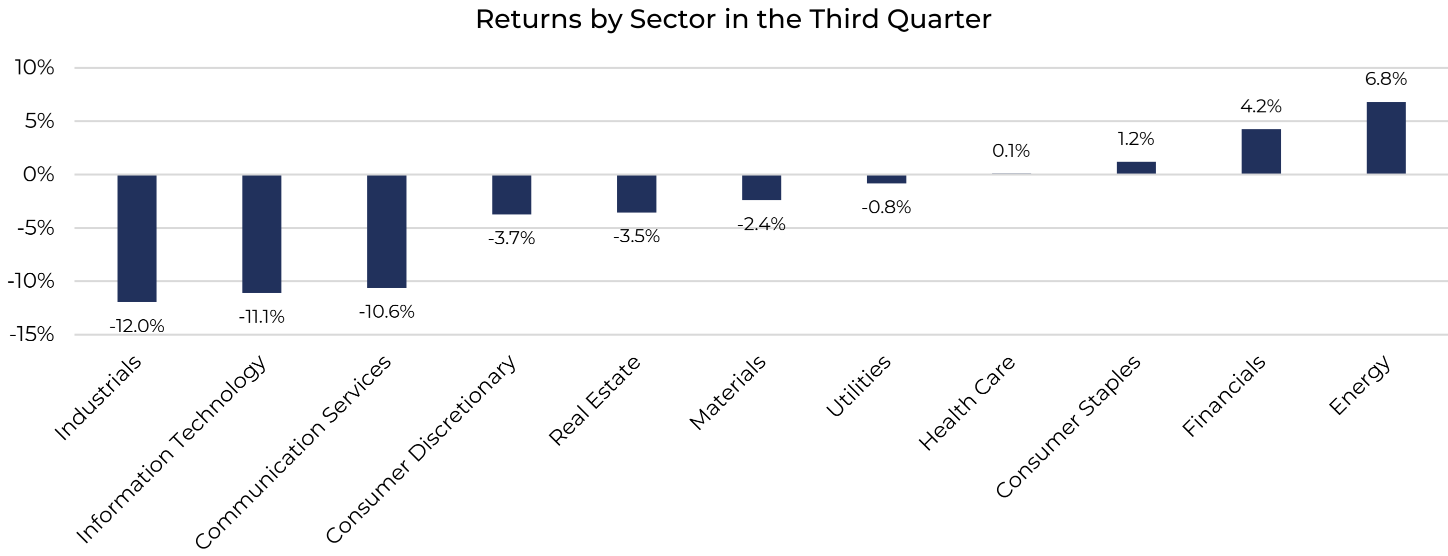
In July, Chinese markets rallied, with the MSCI China A Onshore Index rising by 5.7%. Markets were strong on expectations of greater stimulus for the housing market and wider economy. The readout from the Politburo's meeting acknowledged "insufficient domestic demand" and mentioned the need for counter-cyclical economic policy. Supporting the private sector was mentioned, though at the time we argued actions rather than rhetoric was needed. The phrase "housing is for living, not for speculation" was removed from the statement, which was interpreted by most as a sign that more easing measures for the property market were on the way. However, the phrase later reappeared in other government documents, indicating the government is unlikely to unleash another property bubble.

The gains were erased over the next two months as the MSCI China A Onshore Index fell by 8.1% in August and a further 1.8% in September. Wealth management products run by Zhongrong Trust failed to repay lenders, leading to fears over the strength of China's broader financial system. Country Garden, a large private property developer, failed to repay its maturing bonds on time. We also saw the ramp up in the anti-corruption campaign in the healthcare sector.



(Data from 30/06/23 to 30/09/23, returns in USD, source: Bloomberg, Guinness Global Investors calculations)

Growth stocks underperformed as the MSCI China A Onshore Growth Index fell by 8.0% in the quarter, compared to the Value Index which fell by 0.1%.

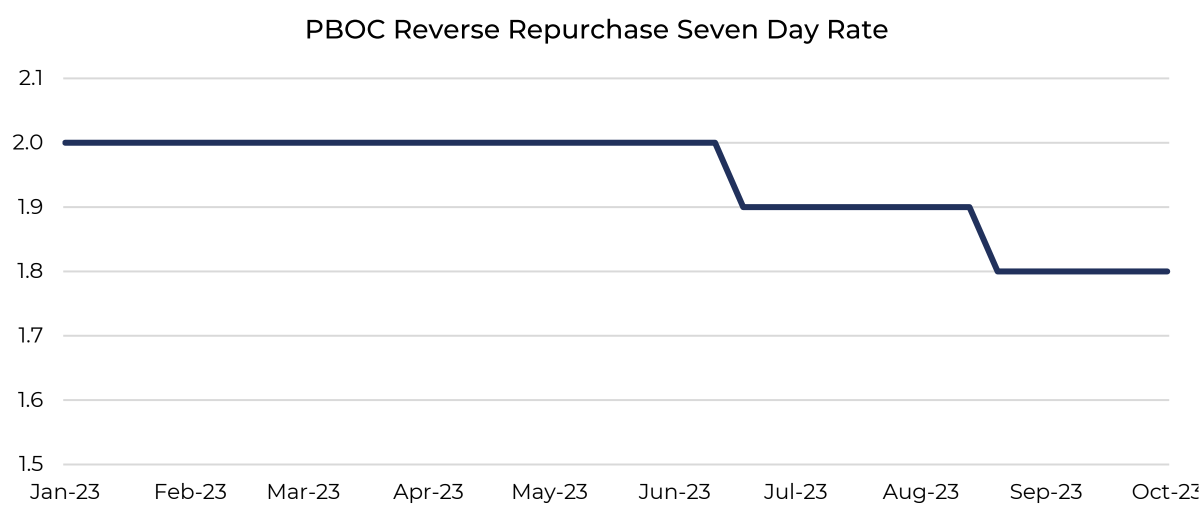


(Data from 30/06/23 to 30/09/23, returns in USD, source: Bloomberg, Guinness Global Investors calculations)

In the third quarter, the best performing sectors were Energy (total return +6.8%), Financials (+4.2%) and Consumer Staples (+1.2%). Rising oil prices and good results led to strength for the Energy sector. Within Financials, the state owned banks outperformed as investors looked for value names. The liquor names led the strength in Consumer Staples.

The weakest sectors were Industrials (total return -12.0%), Information Technology (-11.1%) and Communication Services (-10.6%). Within Industrials, sustainability related names CATL, Sungrow and Eve Energy were the main laggards. Within Information Technology, companies with exposure to consumer electronics lagged as well as software and semiconductor names.

Macro Stimulus

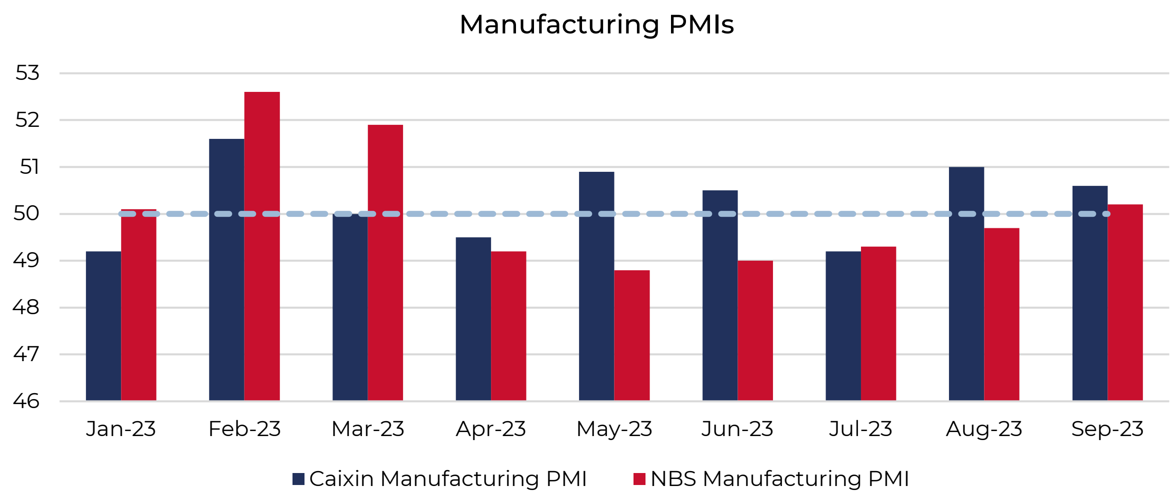


(Data from 31/12/22 to 30/09/23, source: Bloomberg, Guinness Global Investors calculations)

Since June, the government has twice cut short-term interest rates, by which we mean the seven-day reverse repurchase (repo) rate. In June the seven-day repo rate was cut from 2.0% to 1.9%; in August rates were cut further to 1.8%.

Over the summer, we have seen clear signs of stimulus to boost both the housing market and the overall economy.

- The definition of a first home has been relaxed, so more households are eligible for cheaper mortgages, which should practically benefit the tier one cities.
- Minimum mortgage rates for second homes have been cut from 0.6% above the five-year loan prime rate (LPR) to 0.2% above the five-year LPR. In essence, this is a further cut to mortgage rates on top of the 0.1% reduction in the five-year LPR year-to-date.
- Importantly, banks are being told to apply these new lower bounds to existing mortgage holders who are refinancing.
- Required reserve ratios have been cut, from 7.8% in Dec-22 to 7.6% in June and now 7.4% in September.
- Tax deductions have been increased for childcare and elderly care, which should lead to higher disposable incomes.



(Data from 31/01/23 to 30/09/23, source: Bloomberg, Guinness Global Investors calculations)

China's macroeconomic data points were weak over the spring and much of summer, but we are seeing incrementally better data. High-frequency data points such as the manufacturing Purchasing Managers' Index (PMI) illustrate the point, where a number above 50 indicates expanding activity and a number below 50 indicates weakening activity. The Caixin Manufacturing PMI, which is more geared towards private enterprises, recovered from 49.2 in July to 51.0 in August, before moderating to 50.6 in September which still indicates healthy activity. The NBS PMI, which is more geared towards state-owned enterprises (SOEs), recovered from 49.3 in July to 49.7 in August and 50.2 in September.

PORTFOLIO HOLDINGS

Given that the MSCI China A Onshore Growth Index fell by 8.0% in the quarter and the value index fell by only 0.1%, it was no surprise to see some of our holdings underperform in the quarter. The Fund targets the high quality, growing companies which give exposure to the structural growth themes in in the onshore market. Relative to the MSCI China A Onshore Index, areas which helped the Fund's performance in the quarter were:

- Underweight to Utilities and Real Estate, where the Fund holds no exposure.

- Stock selection led by Suofeiya Home Collection, Shengyi Technology and Hongfa Technology (see next section for details).

Areas which detracted from the Fund's relative performance were:

- Underweight in Financials, where the Fund has 3% exposure compared to 17% exposure for the benchmark. Financials overall rose by 4% in the quarter, and so the Fund benefited from less of this rise. The Fund does not hold any banks in China and in an environment where the banks are outperformers, as investors target value stocks, the Fund may lag.

- Stock selection in Materials, driven by the Fund's battery materials exposure: Shanghai Putailai and Shenzhen Capchem. Both companies are facing pricing pressure as their respective industries are facing potential oversupply.

- Underweight in Consumer Staples along with stock selection. The sector rose by 1.2% so the Fund benefited from less of its rise compared to the benchmark. Additionally holdings Fuling Zhacai and Inner Mongolia Yili underperformed the sector.

- Stock selection in Information Technology. This was partly driven by the solar-related companies (Jingsheng Mechanical and First Applied Material) who are seeing lower selling prices due to overcapacity in the industry. Companies with exposure to consumer electronics were also weak: Xiamen Faratronic, H&T Intelligent and Sinowealth Electronic.

The strongest stocks in the third quarter were:

- Suofeiya Home Collection (total return +8%) – in the first half of 2023, revenue fell 1% and earnings per share (EPS) rose 21%. Suofeiya is a manufacturer of wardrobes and kitchen cabinets. The company has reduced its direct exposure to property developers, with their sales contribution falling from a peak of 18% a few years ago to 12% in the second quarter of this year.

- Shengyi Technology (+8%) is a supplier of copper clad laminates (CCLs) which are used as the base material for printed circuit boards (PCBs). In the first half of 2023, Shengyi's revenue fell 16% and EPS fell 40%. Given falling consumer electronics demand and high inventory in the industry, selling prices of CCLs are falling. Some of their weaker competitors have seen prices fall below variable costs, indicating the intense competition prevalent in the industry. But markets are now looking ahead to next year, for signs of a bounce in demand as inventories decline.

- Hongfa Technology (+5%) – in the first half of 2023, revenue grew 14% and EPS grew 14%. Hongfa is the world's largest manufacturer of electric relays. We own it for its exposure to high-power relays used in electric vehicles, controlling important functions such as powering the vehicle and charging the battery. Hongfa is a major supplier to Tesla in both its US and Chinese factories. Hongfa has sensibly diversified its production base to reduce its exposure to geopolitical risk. A new plant is Indonesia is to start delivering to foreign customers soon. A factory in Europe is supplying Volkswagen and Mercedes Benz, while Hongfa has won a contract worth RMB 3bn ($0.5bn) to supply Volvo for the next decade. Hongfa's Chinese operations will supply its domestic customers such as BYD, where Hongfa has 40% share for its high-voltage relays.

The weakest stocks in the third quarter were:

- Zhejiang Jingsheng Mechanical & Electrical (total return -33%) – in the first half of 2023, revenue grew 92% and EPS grew 80%. Jingsheng is China's largest manufacturer of crystal growing furnaces which are used to heat the silicon which eventually forms wafers and solar cells. Its customers are increasing capacity as the global transition towards renewable energy continues. The new generation of crystal growing furnaces are expected to go into mass production next year, which are attractive for clients as they are more efficient and reduce per unit costs. Jingsheng also makes furnaces for the semiconductor industry as the underlying process is similar and here orders grew 51% in the second quarter.

- Faratronic (-30%) – in the first half of 2023, revenue grew 12% and EPS grew 14%. Faratronic is the world's largest manufacturer of film capacitors which store electrical energy and are designed to discharge this energy very quickly. The company's products are used in solar, wind, EVs and industrial applications. Given concerns of overcapacity in the solar and EV markets, Faratronic may see weaker than expected demand in the coming months.

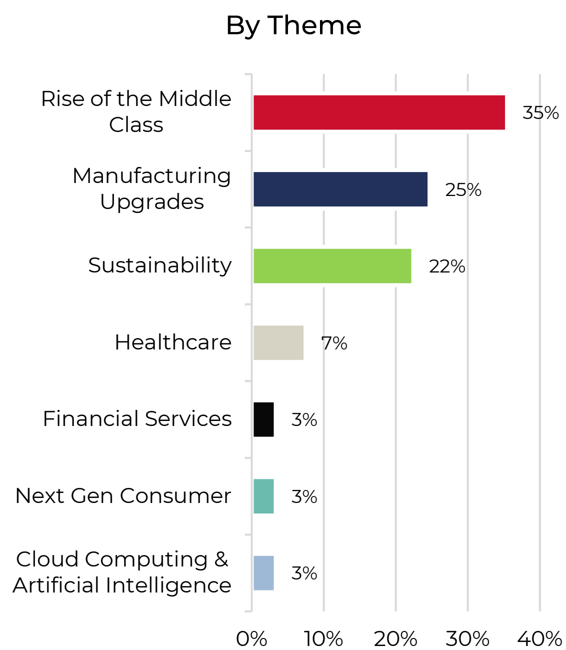
- Wuxi Lead Intelligent Equipment (total return -25%) – in the first half of 2023, revenue grew 30% and EPS grew 48%. Lead Intelligent is a manufacturer of battery production equipment, whose second largest shareholder is CATL, one of the world's largest battery manufacturers. Given potential overcapacity in China, export growth is likely to be important for Lead Intelligent. Therefore it was good to see the business sign up LG Energy Solutions, the first major Korean customer that Lead Intelligent has worked with. Automotive Cells Company (a joint venture operated between Mercedez-Benz Group, Stellantis and Total Energies) is Lead Intelligent's second largest foreign customer. Volkswagen and Northvolt are other major customers that Lead Intelligent supplies.

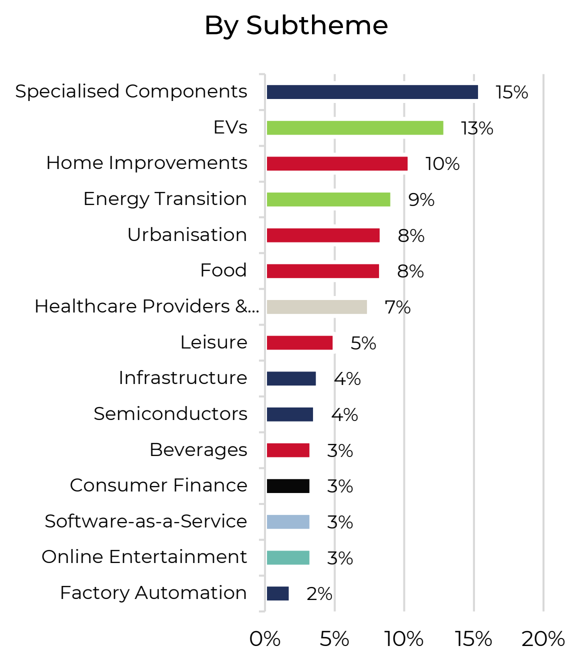
CHANGES TO THE PORTFOLIO

There were no switches made in the quarter.

PORTFOLIO POSITIONING

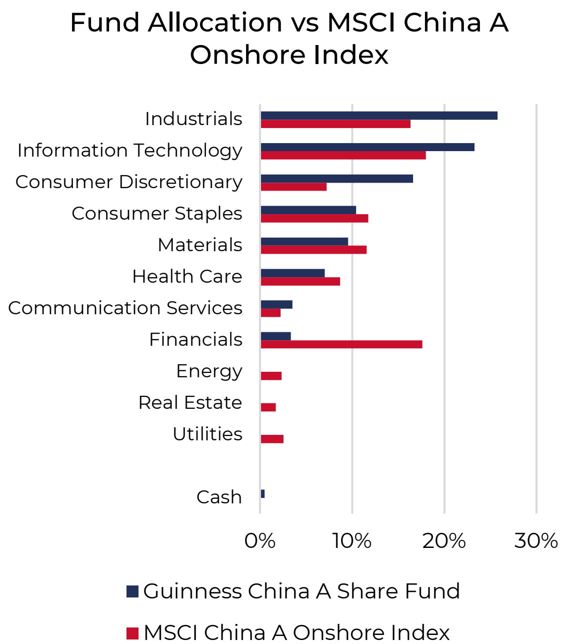
By theme, the Fund's largest exposures are to the Rise of the Middle Class, followed by Manufacturing Upgrades and Sustainability. Important subthemes include Specialised Components, Electric Vehicles and Home Improvements.

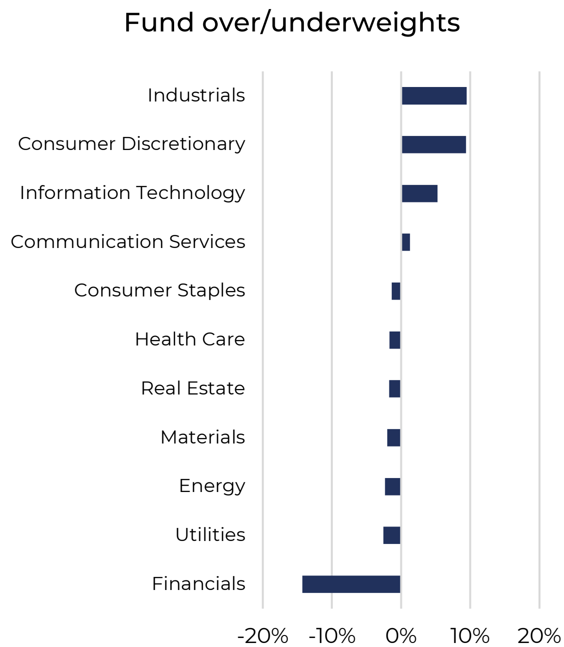




(Data as of 30/09/23, source: Guinness Global Investors calculations)

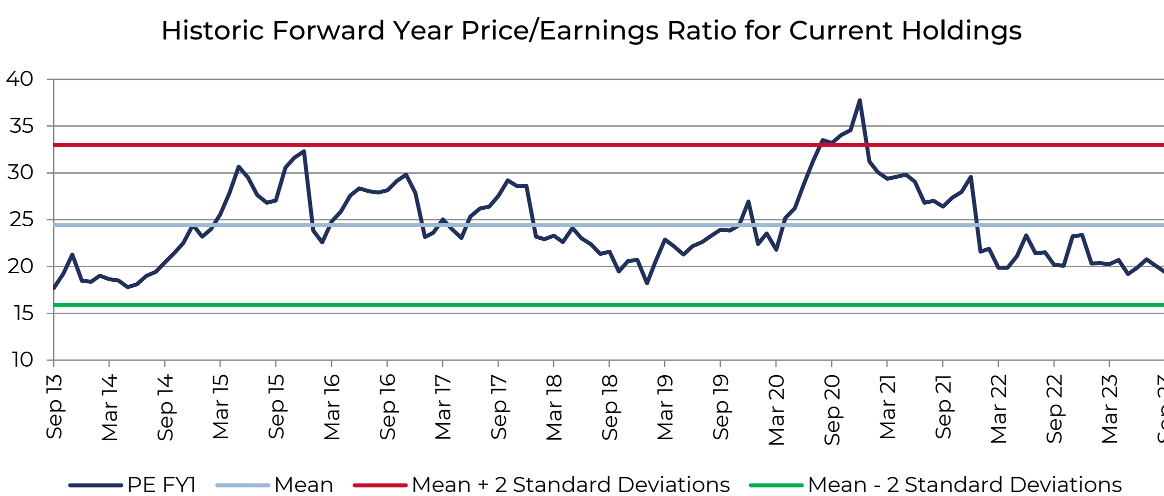
On a sector basis, the Fund's largest exposures are to Industrials and Information Technology. The Fund has no exposure to Utilities, Energy or Real Estate. Relative to the MSCI China A Onshore Index, the Fund is overweight in Industrials and Consumer Discretionary. The Fund is underweight in Financials.





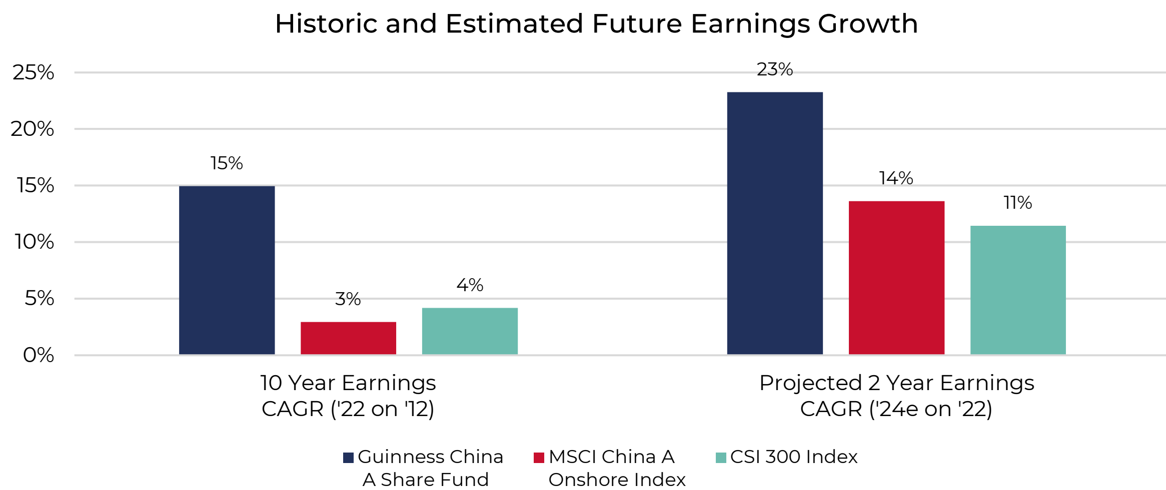
(Data as of 30/09/23. Source: Bloomberg, MSCI, Guinness Global Investors calculations)

OUTLOOK



(Data from 30/09/13 to 30/09/23, source: Bloomberg, Guinness Global Investors calculations)

We argue that talk of the collapse of China's financial system is unwarranted. Markets are to an extent pricing in this scenario, whereas we argue China has the capital in place in the banking system to absorb losses arising from the property market and wider economy. Therefore if markets are pricing in a scenario which we have assessed as unlikely, then this is an opportunity for investors. The China A Share Fund is trading on a forward year price earnings ratio of 19.5x which is one of the lowest levels seen for our holdings over the past decade. This valuation does not appear often for the high-quality, compounding stocks we hold in the Fund. Over the past decade, our holdings in aggregate have grown earnings by 15% a year. Based on consensus analyst estimates, the Fund's holdings in aggregate are expected to grow earnings by 23% a year over the next two years.



(Source: Bloomberg, MSCI, Guinness calculations. Data as of 30/09/2023. Data in CNY. Fund series assumes $1m equally weighted into current holdings. Data for the Guinness China A Share Fund is a simulation based on actual, aggregate, historic data for the Funds' current holdings. The China A Share Fund was launched on 09.03.2023. Index data uses historic holdings as of the end of each year)

Portfolio Managers

Sharukh Malik
Edmund Harriss

GUINNESS CHINA A SHARE FUND - FUND FACTS

Fund size	$0.5m
Fund launch	09.03.2023
OCF	0.89%
Benchmark	MSCI China A Onshore TR

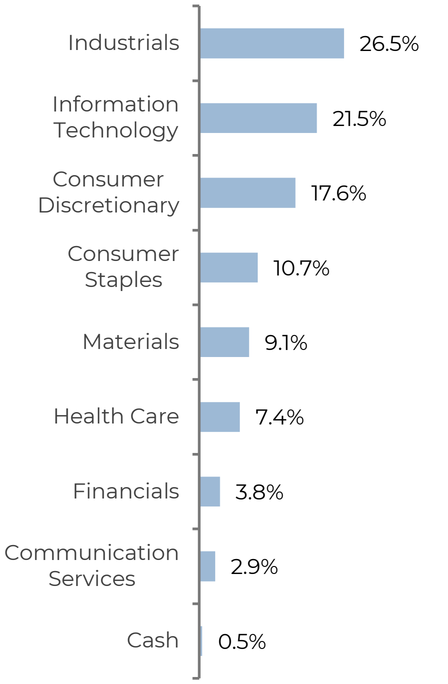
GUINNESS CHINA A SHARE FUND - PORTFOLIO

Top 10 holdings

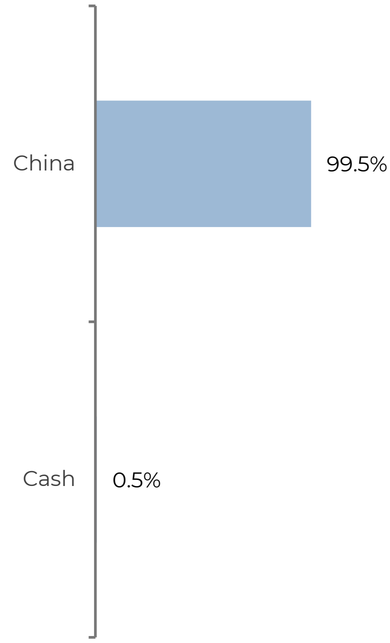
Suofeiya Home Collection	4.1%
Juewei Food Co Ltd	4.0%
Amoy Diagnostics Co Ltd	3.8%
Ping An Insurance	3.8%
Hongfa Technology Co Ltd	3.8%
Haier Smart Home Co Ltd	3.8%
Shandong Sinocera Functional	3.7%
Shengyi Technology	3.7%
Jiangsu Hengli Hydraulic	3.7%
Venustech Group	3.5%

Top 10 holdings	37.9%
Number of holdings	30

Sector



Country



Past performance does not predict future returns.

GUINNESS CHINA A SHARE FUND - CUMULATIVE PERFORMANCE

(GBP)	1 Month	YTD	1 yr	3 yr	5 yr	10 yr
IA China/Greater China TR	-	-	-	-	-	-
(USD)	**1 Month**	**YTD**	**1 yr**	**3 yr**	**5 yr**	**10 yr**
IA China/Greater China TR	-	-	-	-	-	-
(EUR)	**1 Month**	**YTD**	**1 yr**	**3 yr**	**5 yr**	**10 yr**
IA China/Greater China TR	-	-	-	-	-	-

GUINNESS CHINA A SHARE FUND - ANNUAL PERFORMANCE

(GBP)	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
IA China/Greater China TR	-	-	-	-	-	-	-	-	-	-
(USD)	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
IA China/Greater China TR	-	-	-	-	-	-	-	-	-	-
(EUR)	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
IA China/Greater China TR	-	-	-	-	-	-	-	-	-	-

GUINNESS CHINA A SHARE FUND - PERFORMANCE SINCE LAUNCH (USD)

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

Source: FE fundinfo to 30.09.23. 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 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. OCFs for all share classes are available on www.guinnessgi.com .

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: Waystone Management Company (IE) Limited (Waystone IE) 2nd Floor 35 Shelbourne Road, Ballsbridge, Dublin DO4 A4E, Ireland ; or,

• the Promoter and Investment Manager: Guinness Asset Management Ltd, 18 Smith Square, London SW1P 3HZ.

Waystone (IE), 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.waystone.com/waystone-policies/

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.