Guinness Greater China

Investment Commentary – February 2024

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 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
EU 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.

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SUMMARY

In January, the Guinness Greater China Fund (Y class, GBP) fell by 11.4%, while the benchmark, the MSCI Golden Dragon Net Total Return Index (MSCI Golden Dragon Index) fell by 7.2%, and the MSCI China Net Total Return Index (MSCI China Index) fell by 10.3%.

The MSCI Golden Dragon Index is a weighted average of the MSCI China, Taiwan and Hong Kong indexes. As of 31/01/24, Taiwan's weight in the Golden Dragon Index was c.36%. In the Fund, we hold two positions in Taiwan which collectively have a weight of c.6.5%. As the MSCI Taiwan Index only fell by 0.8% in the month, the MSCI Golden Dragon Index captured much more of the outperformance in Taiwan than the Fund. Taiwan's outperformance was led by the Information Technology sector, which was the only positive sector in the month, driven by the AI-related companies. Every other sector, meanwhile, was negative.

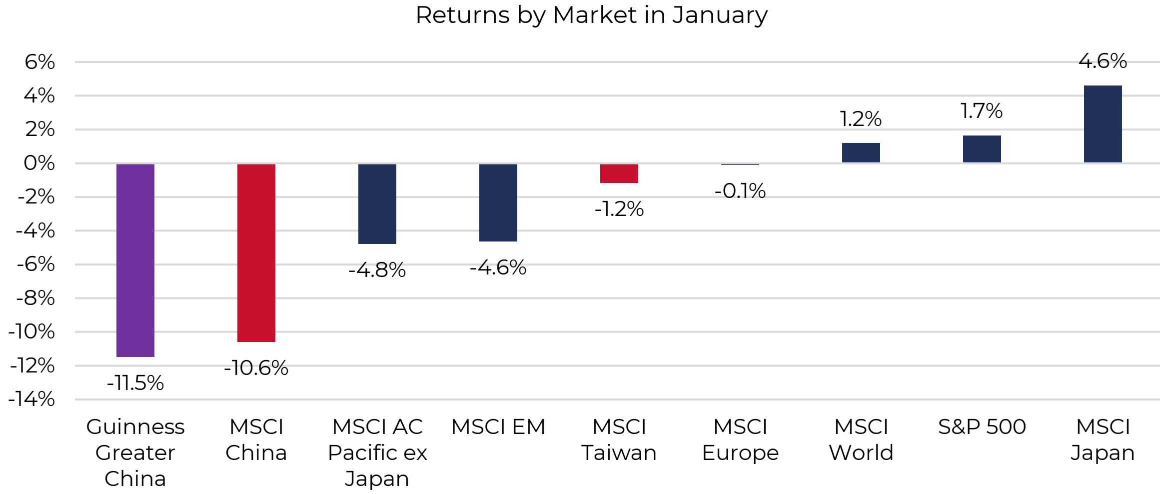
Contributors to Fund returns were good performance from Elite Material, China Merchants Bank and NetEase. Stock selection in the Consumer Discretionary sector, the underweight to Tencent and Alibaba, and the underweight to Materials, were further contributors to performance. Detractors from Fund performance were weakness from Travelsky, stock selection in Industrials and the overweight to Information Technology and Health Care sectors.

Based on analysts' consensus estimates, the Fund is trading on a price to earnings ratio of 10.1x on 2024 earnings and 8.8x on 2025 earnings. The current set of Fund holdings is trading at more than two standard deviations below their 15-year average.

Over the past 10 years, our holdings have in aggregate grown earnings by 9% a year. Based on consensus analyst estimates, they are expected to grow earnings by 19% in 2023, 17% in 2024 and 15% in 2025. At current valuations, we believe the Fund represents outstanding value to investors for the growth we believe to be on offer.

COMMENTARY

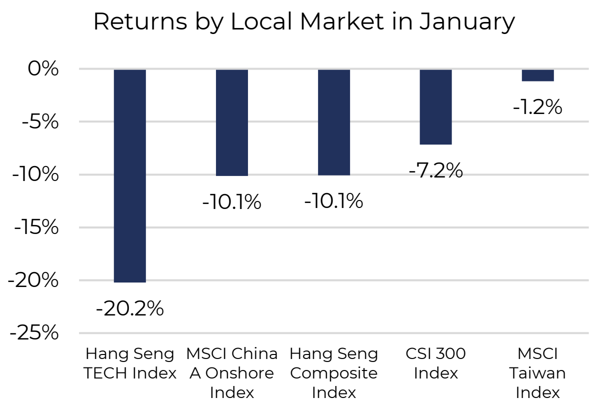
(Performance data in the section in USD terms unless otherwise stated)

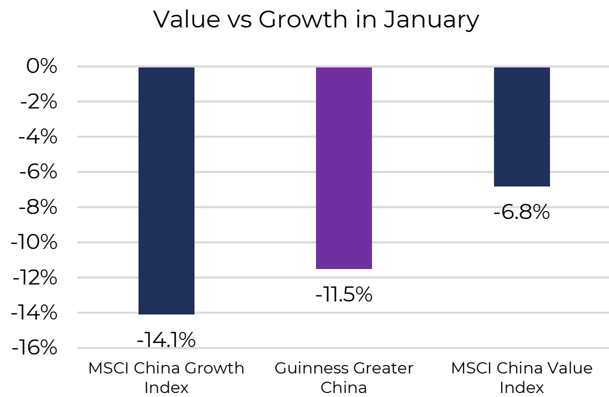


Data from 31/12/23 to 31/01/24, returns in USD, source: Bloomberg, Guinness Global Investors calculations

In January, the MSCI China Index fell by 10.6% compared to the MSCI World Index which rose by 1.2%. Macro data for December came in mixed. Industrial production grew by 6.8% in December and nominal retail sales grew by 7.4%, though this was a deceleration compared to the previous month. But property data remained weak. Sales, as measured by floor space and value, fell by 13% and 17% respectively in December despite continued support for the property market. Consumer prices remain in deflationary territory, driven by producer price deflation and China's ongoing deleveraging in the property sector. Despite the macroeconomic data, no significant government stimulus was announced and so Chinese markets sold off, particularly in parts of the A share market.

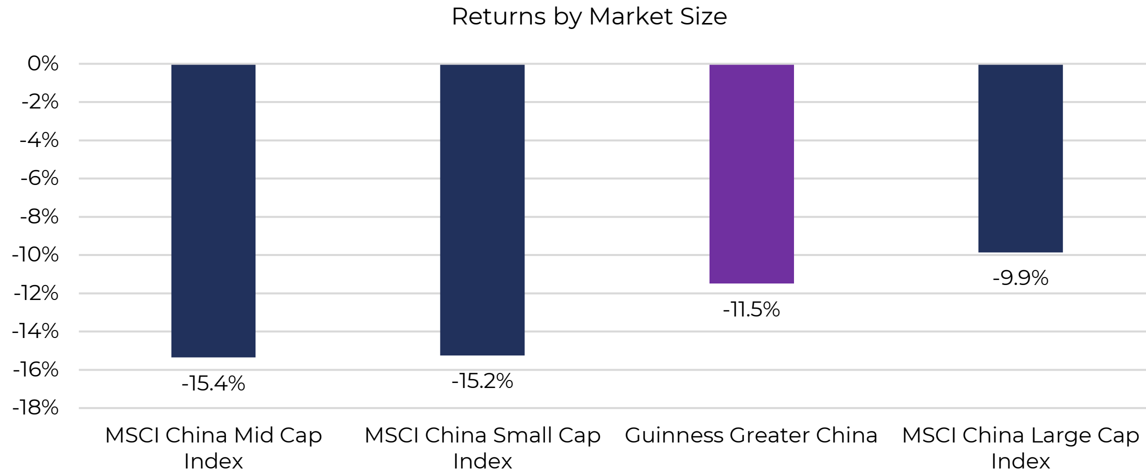
The MSCI Taiwan Index fell by 1.2% but its performance was heavily influenced by the Information Technology sector, which accounts for c.75% of the index. The Information Technology sector was the only sector in Taiwan that had a positive return, rising 0.3% as the AI-related stocks were strong. The other main sectors Financials, Materials and Industrials fell by 5.5%, 10.1% and 7.8% respectively. Therefore in Taiwan we see the narrowness of market leadership around AI, as we also see in the US. On the political front, the incumbent Democratic Progressive Party (DPP) won the presidential elections, with Lai Ching-Te elected as the new leader of the country. However the DPP lost its majority in parliamentary elections, meaning the executive and legislative branches of the country are now split. On China-Taiwan relations, Lai Ching-Te aims to maintain the status quo despite his preference for Taiwanese independence.





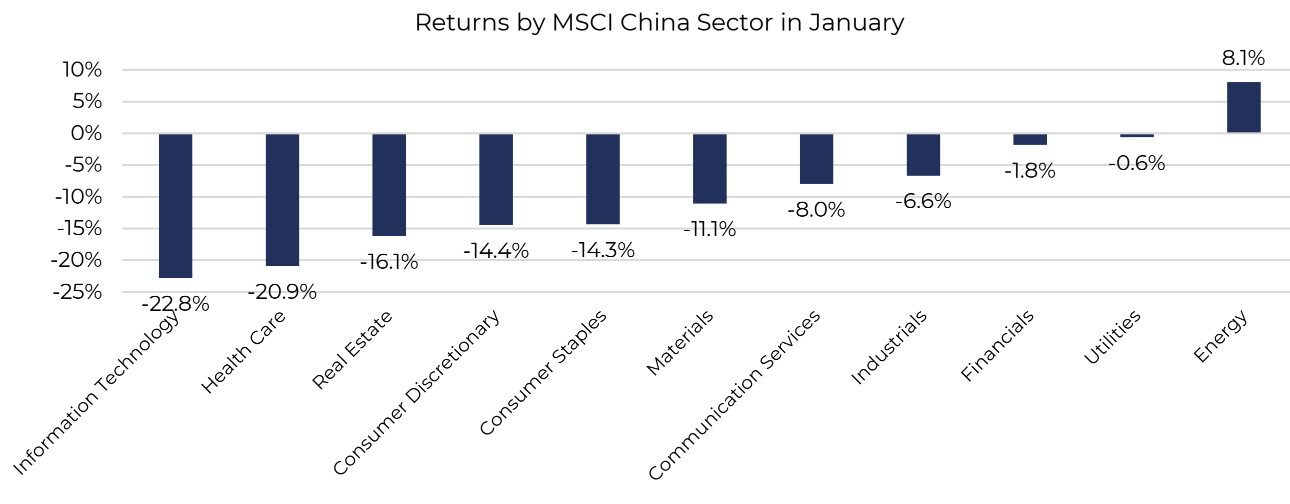
Data from 31/12/23 to 31/01/24, returns in USD, source: Bloomberg, Guinness Global Investors calculations

Offshore and onshore stocks performed similarly in January, as both the Hang Seng Composite Index and MSCI China A Onshore Index fell by 10.1%. Value stocks, as measured by the MSCI China Value Index, fell by 6.8% in January compared to the 14.1% decline for the growth index. In general, investors looked to move to more defensive areas of the market.



Data from 31/12/23 to 31/01/24, returns in USD, source: Bloomberg, Guinness Global Investors calculations

Small and mid-cap stocks led the weakness in China, with the MSCI China Mid Cap Index falling 15.4% and the MSCI China Small Cap Index falling 15.2%. Large-caps, as measured by the MSCI China Large Cap Index, fell by 9.9%. Large-caps benefited from the 'national team' (state-owned funds) buying ETFs tracking the CSI 300 Index, which tracks the 300 largest China A Shares. Retail investors followed the National Team, and so sold small and mid-cap stocks and rotated into large-cap stocks.



Data from 31/12/23 to 31/01/24, returns in USD, source: Bloomberg, Guinness Global Investors calculations

In January, the best performing sectors in the MSCI China Index were Energy (total return +8.1%), Utilities (-0.6%) and Financials (-1.8%). In a risk-off environment, value or defensive stocks in the three sectors outperformed. The weakest sectors were Information Technology (total return -22.8%), Health Care (-20.9%) and Real Estate (-16.1%). In Information Technology, weaker stocks were Xiaomi, Lenovo Group and Sunny Optical. In Healthcare, a bill by a congressional committee in the US aimed to restrict US groups from sharing genetic information with certain Chinese biotech companies, leading to weakness for Wuxi Biologics, Innovent Biologics and Beigine. Real Estate names were weak as volume of property sold continues to fall, along with prices.

ATTRIBUTION

In January, the Guinness Greater China Fund (Y class, USD) fell by 11.5%, while the benchmark, the MSCI Golden Dragon Index fell by 7.3%, and the MSCI China Index fell by 10.6%.

The MSCI Golden Dragon Index is a weighted average of the MSCI China, Taiwan and Hong Kong indexes. As of 31/01/24, Taiwan's weight in the Golden Dragon Index was c.36%. In the Fund, we hold two positions in Taiwan which collectively have a weight of c.6.5%. As the MSCI Taiwan Index only fell by 1.2% in the month, the MSCI Golden Dragon Index captured much more of the outperformance in Taiwan than the Fund. Taiwan's performance was heavily influenced by the Information Technology sector, which accounts for c.75% of the local market. The Information Technology sector was the only sector in Taiwan that had a positive return, rising 0.3% as the AI-related stocks were strong. The other main sectors Financials, Materials and Industrials fell by 5.5%, 10.1% and 7.8% respectively. Therefore in Taiwan we see the narrowness of market leadership around AI, as we also see in the US.

The Fund aims to give exposure to the structural growth themes in China. We also allocate to Taiwan, targeting stocks 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.
- Exposure to 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.

As the Fund is designed around a framework of structural growth in China, we expect therefore our Taiwanese exposure to the Fund to be more limited. We can see this in the composition of the investment universe, which consists of high-quality companies with exposure to the various themes. Of the universe of 770 stocks, 720 are Chinese and 50 are Taiwanese. Equivalently, 94% of the universe consists of Chinese companies and 6% consists of Taiwanese companies. Therefore the Fund's 6.5% weight to Taiwan broadly reflects Taiwan's weight in the universe.

Relative to the MSCI China Index, areas which helped the Fund's performance were:

- Good performance from Elite Material (total return +17.9%), China Merchants Bank (+4.9%), NetEase (+4.8%), TSMC (+3.5%) and Inner Mongolia Yili (+0.3%).
- Stock selection in Consumer Discretionary, driven by not holding names such as Meituan (total return -23.7%), Pinduoduo (-13.3%), Li Auto (-28.0%), BYD (-18.8%), Nio (-38.0%) and Xpeng (-43.0%).
- Underweight to Tencent (total return -7.9%) and Alibaba (-8.1%). The Fund is run on an equally weighted basis and so each stock has a neutral weight of c.3.2%. As of 31/01/24, Tencent and Alibaba's weight in the index was 13.8% and 8.6% respectively. Therefore the Fund captures less of these two stocks' decline.
- Underweight to Materials (total return -11.4%) where the Fund has no exposure.

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

- Travelsky, which supplies data for China's aviation industry and processes nearly all passenger flights in the country. One segment of the business, System Integration, is involved with installing equipment and software to airports and airlines. The segment saw a significant drop in revenue in the second half of 2023 whereas in the last set of interim results, management guided for positive growth. It seems slower progress on certain projects as well as payment delays led to the miss. Additionally, across the business higher labour costs led to a rise in expenses, overall leading to a large earnings miss. The stock sold off 25% on the profit alert. Our view is that the System Integration segment, due to being project-based, can have a more volatile growth profile than the core business. It may turn out that the segment rebounds in the future once the delayed projects are completed. Travelsky remains one of the cheapest high-quality stocks which give exposure to China's rebound in travel, both in the short and long term. Therefore we decided to top up on the position following the sell-off.

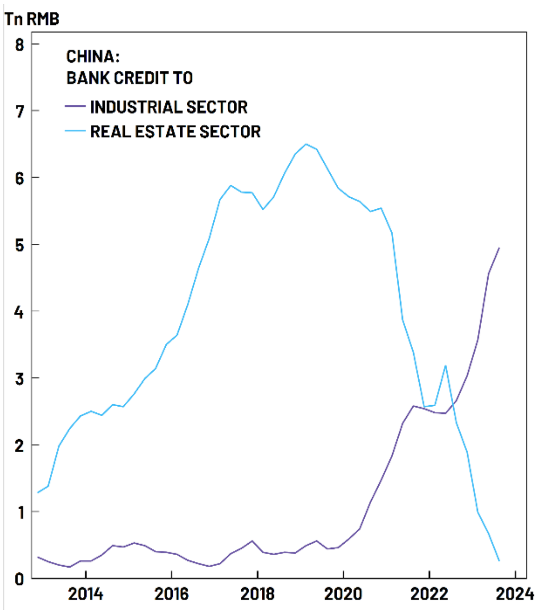
- Stock selection in Industrials, driven by Wuxi Lead Intelligent Equipment (total return -23.2%), Inovance (-12.2%), Nari Technology (-6.8%) and Sany Heavy Industry (-6.0%).

- Overweight to Information Technology (sector total return -23.0%), though offset by good stock selection driven by the Taiwanese holdings, which meant the Fund's holdings fell 11.4% in aggregate. Weaker stocks were Venustech (-32.1%), Shenzhen H&T Intelligent (-29.3%) and Xinyi Solar (-21.6%).

- Overweight to Healthcare (sector total return -20.8%), with weakness from CSPC Pharmaceutical (-21.0%), China Medical System (-19.2%) and Sino Biopharmaceutical (-19.1%).

OUTLOOK

We argue that the government has for the past few years been intentionally deleveraging the property sector. There are several reasons behind this. The first reason is the accumulation of debt, particularly amongst private property developers, which has for some time presented itself as a source of systematic risk. Since 2021, the government has been clamping down on the use of the aggressive debt-funded growth in the property sector, leading to the failure of Evergrande's and other private property developers' business models.



Source: BCA Research, January 2024

The second reason relates to China's long-term economic plan. Ultimately, for China to become rich on a per-capita basis, capital needs to be diverted away from property and towards the new pillar industries. Real estate accounts for at least c.20% of China's GDP and 23% of its capital investment. China's GDP per capita is currently c.$12,500 per person, and to take it to the level of countries such as Korea and Japan, with GDP per capita of c.$35,000 and $39,000 respectively, real estate is not the answer. The answer is also unlikely to be found in other industries that foreign investors have historically been attracted to in China, such as video games (Tencent) and e-commerce (Alibaba). For China to become a wealthy nation, the new pillar industries are going to need capital to grow. These industries include (but are not limited to) the EV supply chain, industrial automation, semiconductor manufacturing and research into pharmaceutical development and healthcare equipment. We can see in the chart that while lending to the real estate sector has plummeted, at the same time lending to the industrial sector, which contains many of these pillar industries, has increased significantly.

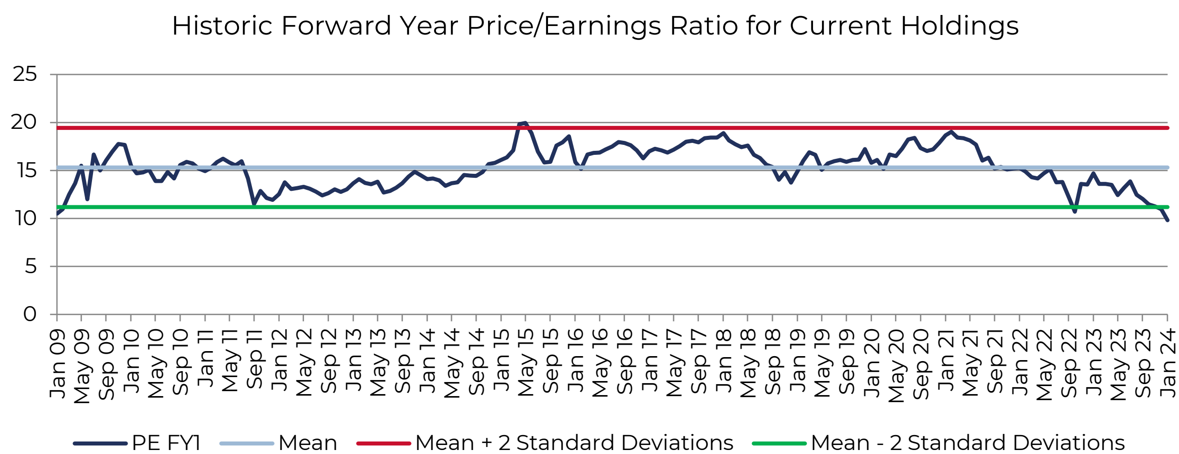
China's current problem is that while in the long term the deleveraging of the property sector is positive, in the short term, because of its large contribution to GDP, the declining real estate market is creating a drag on growth. Meanwhile, although the new pillar industries are growing, they are still relatively small and are certainly not large enough to offset the weakness in real estate.

When could the new pillar industries reach this point? Goldman Sachs looked specifically at EVs, batteries, wind and solar power generation as their proxies for the pillar industries. In their scenario, the new pillar industries become large enough to offset the weakness in property by 2028, assuming property continues to decline. Of course their work only looks into three specific industries and ignores China's other pillar industries, so using similar logic we believe that well before 2028, China's pillar industries are likely to become large enough to offset the falling real estate market.

However this point is still a few years away. Until then, government stimulus is needed to help the economy navigate the ongoing transition. In our previous update, we said we could see the government cutting interest rates and lowering the required reserve ratio (RRR). This had already commenced in January, with the RRR cut by 0.5 percentage points and relending and rediscount rates for the rural sector and small and medium enterprises (SMES) cut by 0.25 percentage points.

We continue to believe, however, that fiscal stimulus is a more effective tool than monetary policy, but even here there are constraints. Some local governments have high levels of debt and are facing issues servicing debt due to their revenue shortfalls. Income from land sales makes up c.50% of local government revenue, and since land sales are weak, local government revenues are under significant strain. So the central government will have to bear the brunt of fiscal easing. Here, we see signs that the government agrees. In October, the government increased the official fiscal deficit from 3.0% to 3.8% of GDP, allowing it to issue RMB 1 trn in central government bonds, the proceeds of which will be spent on infrastructure in areas with recent natural disasters. With more government spending, which can come in various forms, the stimulus can better offset the weakness from property.

From an investment perspective, China continues to become cheaper. The Fund's holdings in aggregate are trading at a forward price/earnings ratio of 9.8x, which is now more than two standard deviations below the holdings' 15-year average. A good strategy paper from Goldman Sachs looked at the historic performance of the MSCI China Index when it has been at depressed levels i.e. when its forward price earnings ratio was below 10.0x. Their analysis showed that historically, on average the index has returned 23% in the following 12 months at current valuations. However the likelihood of positive returns is dependent on realised earnings growth. Their analysis found that when the MSCI China Index has been this cheap, if it grew earnings by more than 10% for the year, the annual return was always positive. So earnings growth is critical at current valuations for China. Here we point out the Fund's strong track record in this respect. Over the past decade, our holdings in aggregate have grown earnings by 9% a year. Meanwhile the MSCI China Index has seen earnings fall by 1% a year over the past decade, despite the great economic growth in China. We argue a passive approach is not the best way to get exposure to high-quality, compounding companies in China. Based on consensus analyst estimates, the Fund's holdings in aggregate are expected to grow earnings by 19% in 2023, 17% in 2024 and 15% in 2025. At current valuations, we believe this represents outstanding value to investors for the growth on offer.



Data from 31/12/08 to 31/01/24, source: Bloomberg, Guinness Global Investors. A simulation based on historic data for the Fund's current holdings. The Fund was launched on 15.12.2015. Calculations assume an equally weighted portfolio.

Portfolio Managers

Sharukh Malik
Edmund Harriss

GUINNESS GREATER CHINA FUND - FUND FACTS

Fund size	$6.6m
Fund launch	15.12.2015
OCF	0.89%
Benchmark	MSCI Golden Dragon TR

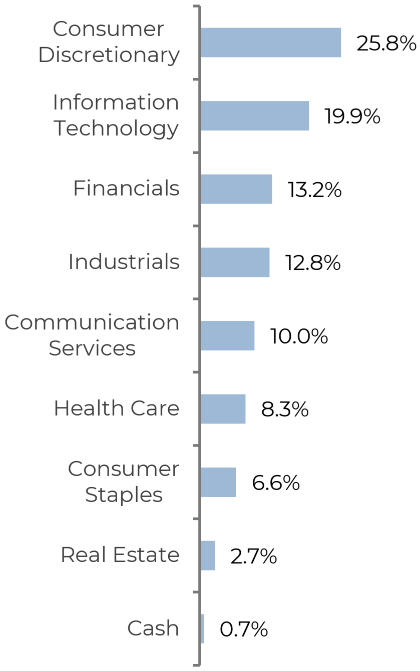
GUINNESS GREATER CHINA FUND - PORTFOLIO

Top 10 holdings

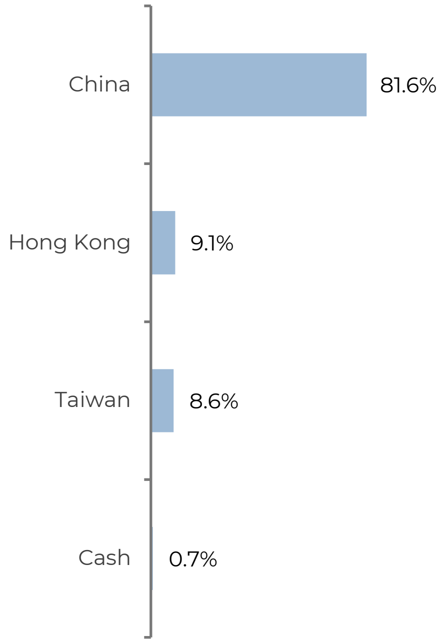
Elite Material	4.7%
Taiwan Semiconductor	4.0%
China Merchants Bank	3.9%
Haier Smart Home	3.8%
Inner Mongolia Yili Industrial	3.7%
NetEase	3.6%
Suofeiya Home Collection	3.6%
NARI Technology	3.5%
Sany Heavy Industry	3.4%
AIA Group Ltd	3.4%

Top 10 holdings	37.5%
Number of holdings	34

Sector



Country



Past performance does not predict future returns.

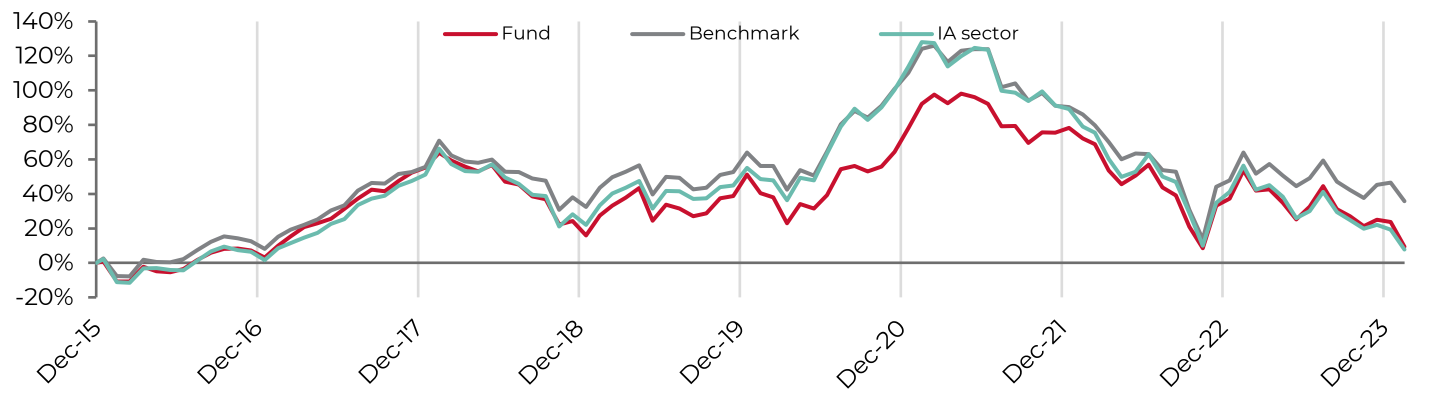
GUINNESS GREATER CHINA FUND - CUMULATIVE PERFORMANCE

(GBP)	1 Month	YTD	1 yr	3 yr	5 yr	10 yr
Fund	-11.4%	-11.4%	-31.1%	-38.6%	-11.3%	-
MSCI Golden Dragon TR	-7.2%	-7.2%	-20.0%	-34.7%	-2.4%	-
IA China/Greater China TR	-9.7%	-9.7%	-33.4%	-49.1%	-16.6%	-
(USD)	**1 Month**	**YTD**	**1 yr**	**3 yr**	**5 yr**	**10 yr**
Fund	-11.5%	-11.5%	-28.7%	-43.0%	-14.1%	-
MSCI Golden Dragon TR	-7.3%	-7.3%	-17.3%	-39.4%	-5.5%	-
IA China/Greater China TR	-9.8%	-9.8%	-31.1%	-52.8%	-19.3%	-
(EUR)	**1 Month**	**YTD**	**1 yr**	**3 yr**	**5 yr**	**10 yr**
Fund	-10.0%	-10.0%	-28.8%	-36.3%	-9.3%	-
MSCI Golden Dragon TR	-5.8%	-5.8%	-17.3%	-32.2%	-0.2%	-
IA China/Greater China TR	-8.3%	-8.3%	-31.1%	-47.2%	-14.7%	-

GUINNESS GREATER CHINA FUND - ANNUAL PERFORMANCE

(GBP)	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Fund	-15.0%	-13.3%	+1.0%	+14.2%	+25.3%	-20.7%	+37.6%	+22.1%	-	-
MSCI Golden Dragon TR	-6.5%	-12.6%	-8.6%	+24.2%	+19.0%	-9.5%	+31.3%	+25.7%	-	-
IA China/Greater China TR	-20.2%	-16.0%	-10.7%	+33.6%	+22.2%	-14.2%	+35.9%	+18.5%	-	-
(USD)	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Fund	-9.9%	-23.0%	+0.1%	+17.9%	+30.4%	-25.3%	+50.4%	+2.3%	-	-
MSCI Golden Dragon TR	-0.9%	-22.3%	-9.5%	+28.2%	+23.8%	-14.8%	+43.8%	+5.4%	-	-
IA China/Greater China TR	-15.4%	-25.4%	-11.5%	+37.8%	+27.1%	-19.2%	+48.7%	-0.7%	-	-
(EUR)	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Fund	-12.9%	-17.9%	+7.7%	+8.1%	+32.8%	-21.5%	+32.3%	+5.5%	-	-
MSCI Golden Dragon TR	-4.3%	-17.3%	-2.6%	+17.6%	+26.1%	-10.5%	+26.3%	+8.6%	-	-
IA China/Greater China TR	-18.3%	-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 31.01.24. 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. 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 D04 A4E0, Ireland: or ,
• the Promoter and Investment Manager: Guinness Asset Management Ltd, 18 Smith Square, London SW1P 3HZ.

Waystone IE is a company incorporated under the laws of Ireland having its registered office at 35 Shelbourne Rd, Ballsbridge, Dublin, D04 A4E0 Ireland, which is authorised by the Central Bank of Ireland, has appointed Guinness Asset Management Ltd as Investment Manager to this fund, and as Manager 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.