Guinness China A Share

Investment Commentary – February 2024

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.

CONTENTS

COMMENTARY

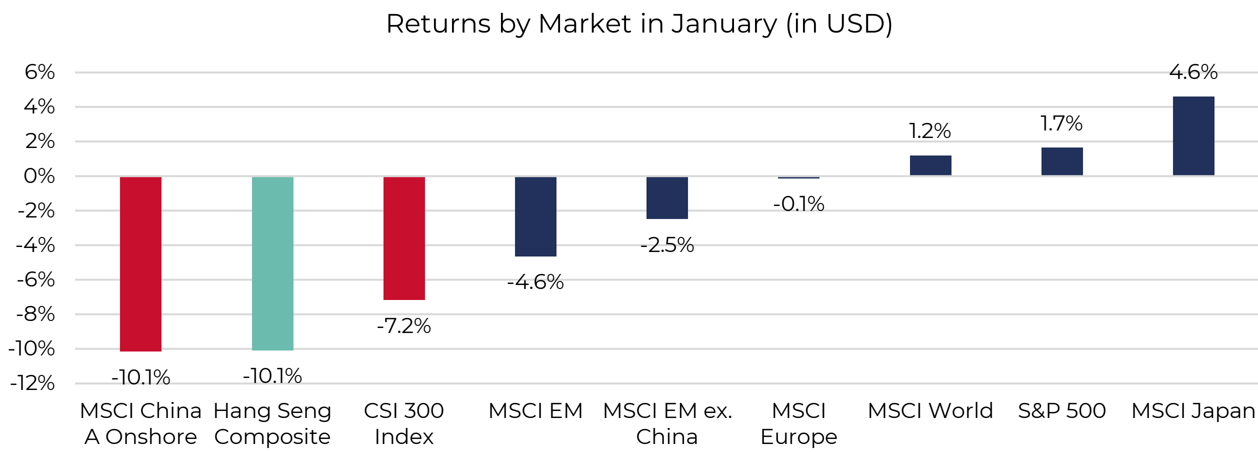
In January, the MSCI China A Onshore Net Return Index (MSCI China A Onshore Index) fell by 10.1% in USD.

Contributors to Fund performance came from Haier Smart Home, Inner Mongolia Yili Industrial Group, Ping An Insurance Group, Suofeiya Home Collection and Zhejiang Supor. The Fund's focus on growth stocks and exposure to small and mid-cap stocks were factors that worked against it, as growth stocks significantly underperformed value, and small and mid-cap stocks underperformed large-cap. However, we note that in the growth-led rally at the beginning of February, the Fund's positioning worked in its favour.

Based on analysts' consensus estimates, the Fund is trading on a price to earnings ratio of 13.4x on 2024 earnings and 11.3x on 2025 earnings. The current set of holdings is trading at more than two standard deviations below their 10-year average.

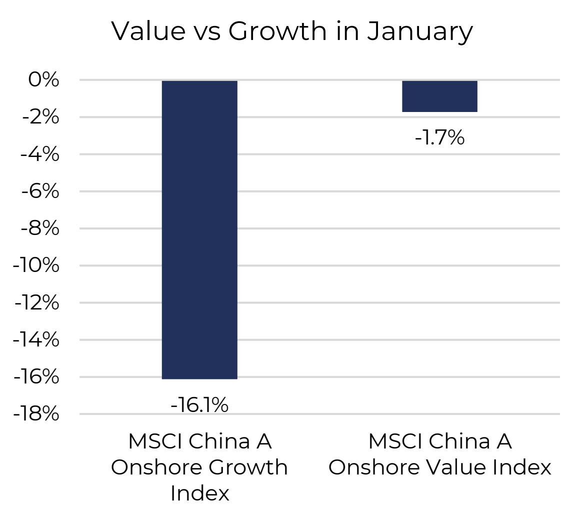
Over the past 10 years, our holdings have in aggregate grown earnings by 15% a year. Based on consensus analyst estimates, they are expected to grow earnings by 12% in 2023, 25% in 2024 and 19% in 2025. At current valuations, we believe the Fund represents outstanding value to investors for the growth we believe to be on offer.

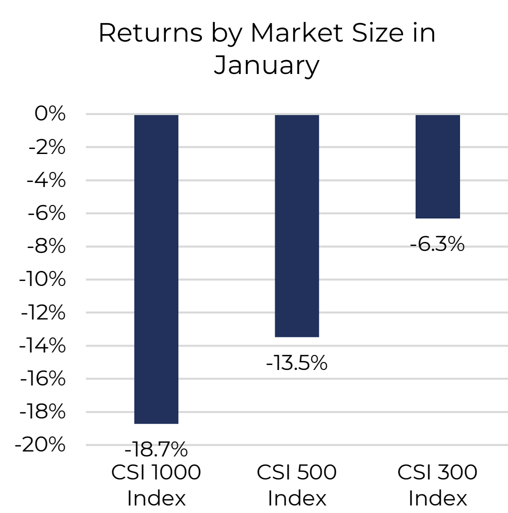
MARKET COMMENTARY



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

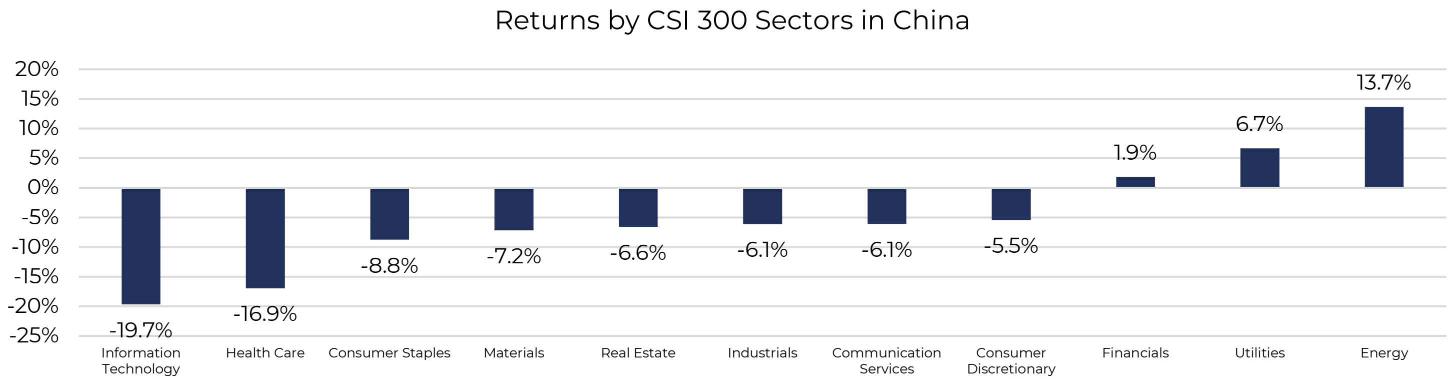
In January, the MSCI China A Onshore Index fell by 10.1% in USD compared to the MSCI World Index which rose by 1.2%. Macro data for December came in mixed. Industrial production grew by 6.8% in December while nominal retail sales grew by 7.4%, though this was a deceleration compared to the previous month. 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.





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

Value stocks, as measured by the MSCI China A Onshore Value Index, fell by 1.7% (in CNY) in January compared to the 16.1% decline for the growth index. Generally investors looked to move to more defensive areas of the market. Small and mid-cap stocks led the weakness in China, with the CSI 1000 Index (small-caps) falling 18.7% and the CSI 500 Index (mid-caps) falling 13.5%. Large-caps, as measured by the CSI 300 Index, fell by 6.3%. 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. Additional pressure on small and mid-cap stocks was linked to 'snowball' derivatives.



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

In January, the best performing sectors in the CSI 300 Index were Energy (total return +13.7% in CNY), Utilities (+6.7%) and Financials (+1.9%). In a risk-off environment, value and defensive stocks in the three sectors outperformed. The weakest sectors were Information Technology (total return -19.7%), Health Care (-16.9%) and Consumer Staples (-8.8%). In Information Technology, weaker stocks were Chaozhou Three-Circle Group, Shengyi Technology and Lens Technology. In Healthcare, a bill by a congressional committee in the US aimed to restrict US groups sharing genetic information with certain Chinese biotech companies, leading to weakness for Wuxi Apptec and Hangzhou Tigermed. Real Estate names were weak as volume of property sold continues to fall, along with prices.

ATTRIBUTION

In January, the benchmark, the MSCI China A Onshore Index fell by 9.04% in CNY. Relative to the benchmark, areas which helped the Fund's performance were:

- Good performance from Haier Smart Home (total return +6.2%), Inner Mongolia Yili Industrial Group (+1.3%), Ping An Insurance Group (+0.5%), Suofeiya Home Collection (-2.8%) and Zhejiang Supor (-4.5%).

- Underweight to Health Care and stock selection, led by not holding the biotech names which were affected by a bill from a congressional committee in the US, aiming to restrict US groups from sharing genetic information with certain Chinese biotech companies.

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

- The Fund's focus on growth, and positioning towards small and mid-caps.

- The MSCI China A Onshore Growth Index fell by 16.1% in the month whereas the Value Index only fell by 1.7%. The Fund does not hold any stocks in the Energy or Utilities sectors, which were the best performing sectors in January as investors rotated into value and defensive stocks.

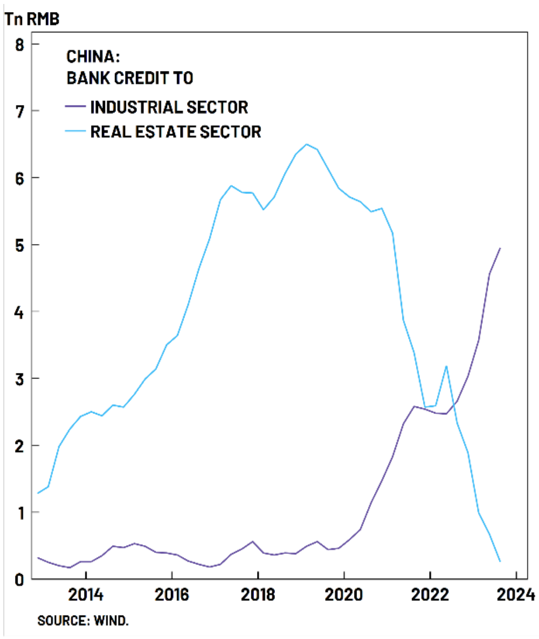
- The Fund also does not hold any banks. The Banks Industry Group is the largest industry within the MSCI China A Onshore Index, with a 9% weight. It rose 6.2% as investors moved into value stocks.

- Small and mid-caps underperformed, as the CSI 1000 Index (small-caps) fell 18.7% and the CSI 500 Index (mid-caps) fell 13.5%. Meanwhile the CSI 300 Index (large-caps) fell 6.3%. The Fund currently is overweight to smaller companies which were weaker in the month as they did not benefit from state funds buying onshore ETFs, which track the large-cap stocks. As of 31st December 2023, the average (mean) market capitalisation of companies in the Fund was \$12bn, whereas the median was \$5bn.

- Weaker stocks in the Fund were Venustech (total return -31.4%, cybersecurity), Shenzhen H&T Intelligent (-28.6%, consumer chips), Sino Wealth Electronic (-27.1%, consumer chips), G-bis Network Technology (-26.1%, video game developer) and Zhejiang Jingsheng Mechanical & Electrical (-25.7%, exposure to solar industry).

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.

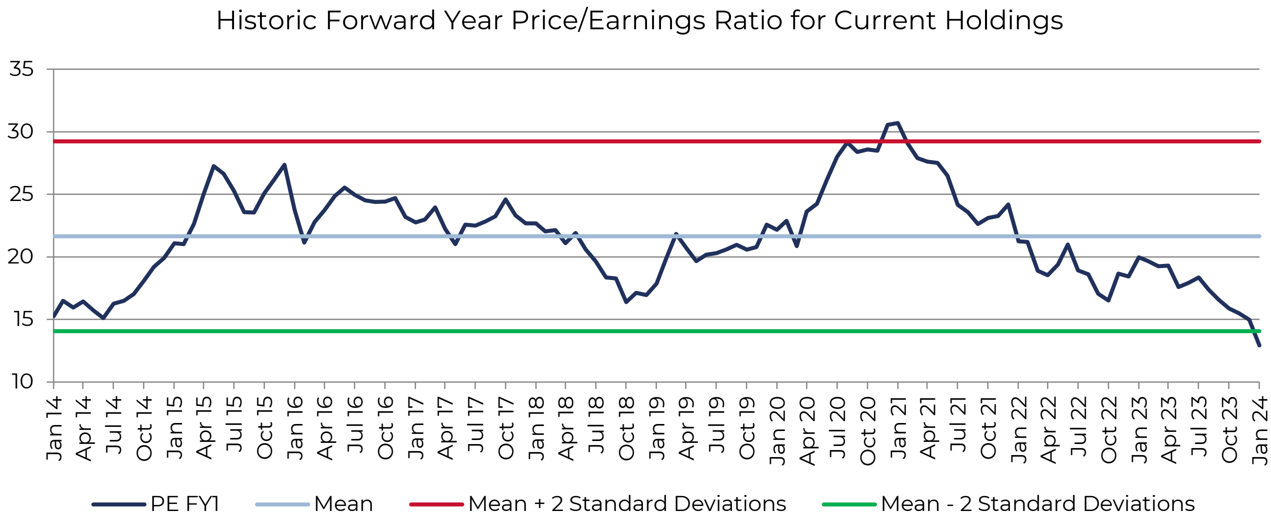
China's current problem is that while in the long-term the deleveraging of the property sector is positive, in the short-term, because of its large contribution to GDP, the declining real estate market is creating a drag on growth. Meanwhile while the new pillar industries are growing, they are still relatively small in size 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's continues to become cheaper. The Fund's holdings in aggregate are trading at a forward price/earnings ratio of 12.9x which is now more than two standard deviations below the holdings' 10-year average. A good strategy paper from Goldman Sachs looked at the historic performance of the MSCI China Index (which captures both offshore and onshore stocks). 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 15% a year. Meanwhile the MSCI China A Onshore Index has seen earnings growth of only 3% a year over the past decade, despite all of the 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 12% in 2023, 25% in 2024 and 19% in 2025. At current valuations, we believe this represents outstanding value to investors for the growth on offer.



Data from 31/12/13 to 31/01/24, source: Bloomberg, Guinness Global Investors calculations. A simulation based on historic data for the Fund's current holdings. The Fund was launched on 09/03/23. Calculations assume an equally weighted portfolio.

Portfolio Managers

Sharukh Malik
Edmund Harriss

GUINNESS CHINA A SHARE FUND - FUND FACTS

Fund size	$0.4m
Fund launch	09.03.2023
OCF	0.89%
Benchmark	MSCI China A Onshore TR

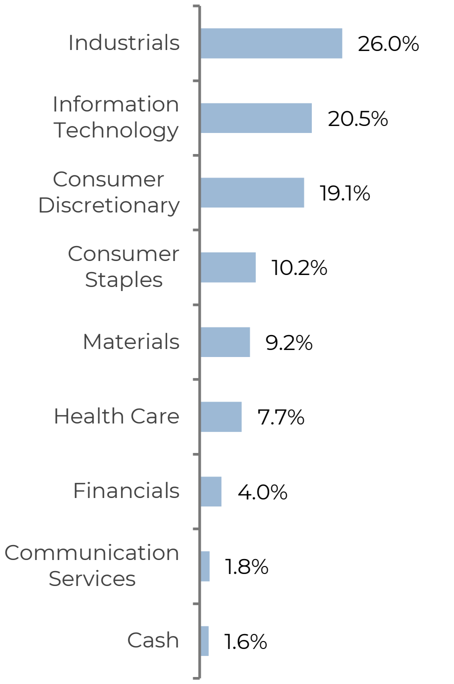
GUINNESS CHINA A SHARE FUND - PORTFOLIO

Top 10 holdings

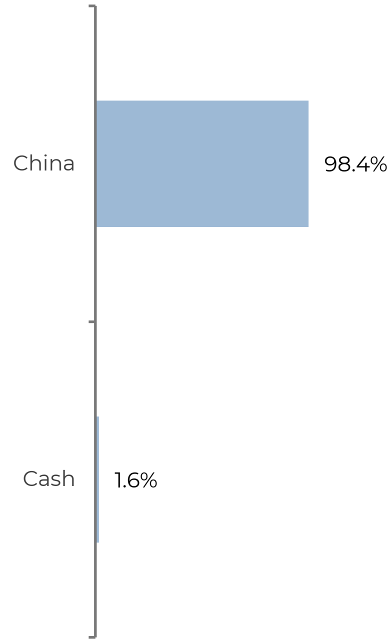
Zhejiang Supor	4.6%
Haier Smart Home Co Ltd	4.5%
Shenzhen Mindray Bio-Medical	4.5%
Inner Mongolia Yili Industrial	4.4%
Shengyi Technology	4.4%
Suofeiya Home Collection	4.2%
Ping An Insurance Group	4.0%
Shenzhen Inovance Technology	3.7%
NARI Technology	3.7%
Sany Heavy Industry	3.7%

Top 10 holdings	41.7%
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)	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
IA China/Greater China TR	-	-	-	-	-	-	-	-	-	-
(USD)	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
IA China/Greater China TR	-	-	-	-	-	-	-	-	-	-
(EUR)	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
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 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 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 .

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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.