Guinness China A Share

Investment Commentary – April 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

SUMMARY

In the first quarter, the Guinness China A Share Fund (Y class, USD) fell by 8.1%, while the benchmark, the MSCI China A Onshore Index, fell by 0.7%.

Contributors to Fund performance came from Haier Smart Home (total return +18.8% in CNY), Hangzhou First Applied Material (+17.1%), Zhejiang Supor (+9.8%), Nari Technology (+9.1%) and Xiamen Faratronic (+9.1%).

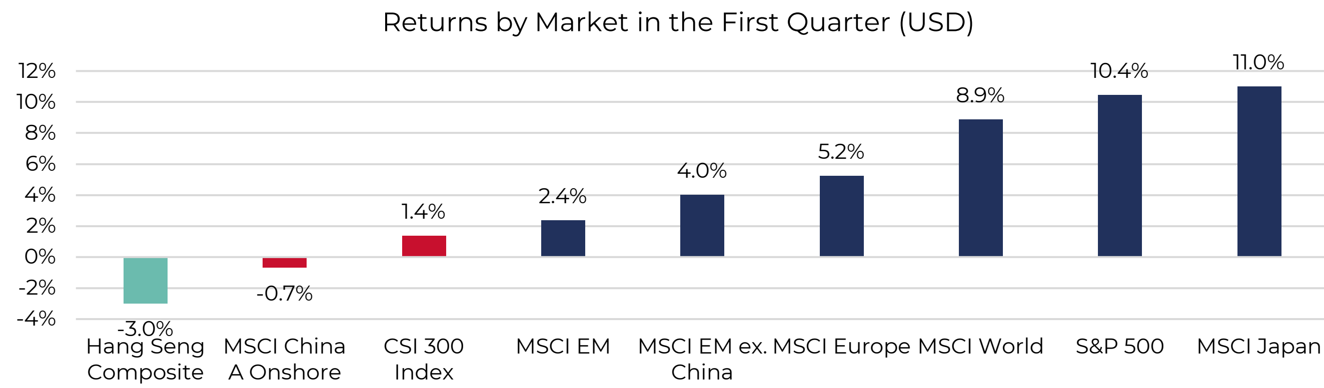
In summary, the Fund's factor profile worked against it in the quarter. The overweights to growth and smaller companies detracted from performance, as these areas were relatively weak. The Fund's bias towards quality stocks also worked against it as banks, metals & mining and oil & gas companies were the strongest industries in the quarter. The Fund has no exposure to these industries as within them, we find very few high-quality, profitable companies which give exposure to the structural growth drivers in China.

Based on analysts' consensus estimates, the Fund is trading on a price to earnings ratio of 14.8x on 2024 earnings and 15.1x on 2025 earnings. The current set of holdings is trading at two standard deviations below their 10-year average.

Based on consensus analyst estimates, the Fund's holdings are expected to grow earnings by 23% 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

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

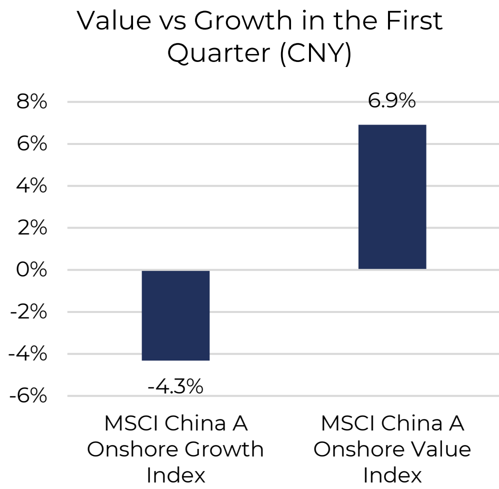


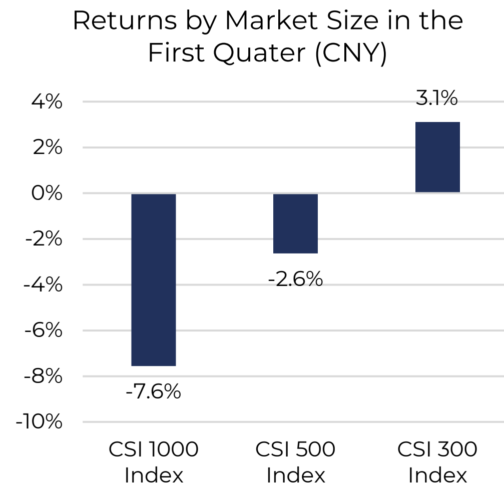
Data from 31/12/23 to 31/03/24, returns in USD, source: Bloomberg, Guinness Global Investors calculations

In the first quarter, the MSCI China A Onshore Index fell by 0.3% in USD, but performance varied considerably by month. In January, the index sold off by 10.2% as macro data for December came in weaker than expected and no significant government stimulus was announced. In particular, small and mid-cap stocks sold off sharply while large-cap stocks outperformed. This was due to the buying patterns of the 'National Team', which consists of state funds such as Central Huijin Investment (a sovereign wealth fund) as well as funds owned by state-owned insurance companies and banks. To support the market, the National Team started to buy local ETFs in mid-January, but most of the buying was concentrated in ETFs tracking the CSI 300 Index, which tracks the largest 300 China A shares. Retail investors followed the National Team's lead, selling small and mid-cap stocks, and rotating into large-cap stocks. Hence small and mid-caps underperformed significantly in January.

Chinese markets then rallied in February, with the MSCI China A Onshore Index rising 10.8%. At the beginning of February, the National Team stepped up the size of its support and began to diversify its purchases, buying more ETFs tracking small and mid-cap stocks. There was a very strong rally in February as retail investors moved back into small and mid-cap stocks before the Chinese New Year holidays. The government also made it harder to conduct short selling, which reduced selling pressure on the market. Some practices we consider to be genuinely risky – for example, some investors go short on a stock, and then use margin loans to buy the stock back. Some brokers have stopped providing margin loans for this purpose. Other practices are considered standard, and these have been restricted. For example, now investors are not allowed to buy a stock and go short on the same day. Brokers are not allowed to borrow shares that will be used for short selling. Restricted shares (such as those granted in an employer shareholder ownership plan) can no longer be lent.

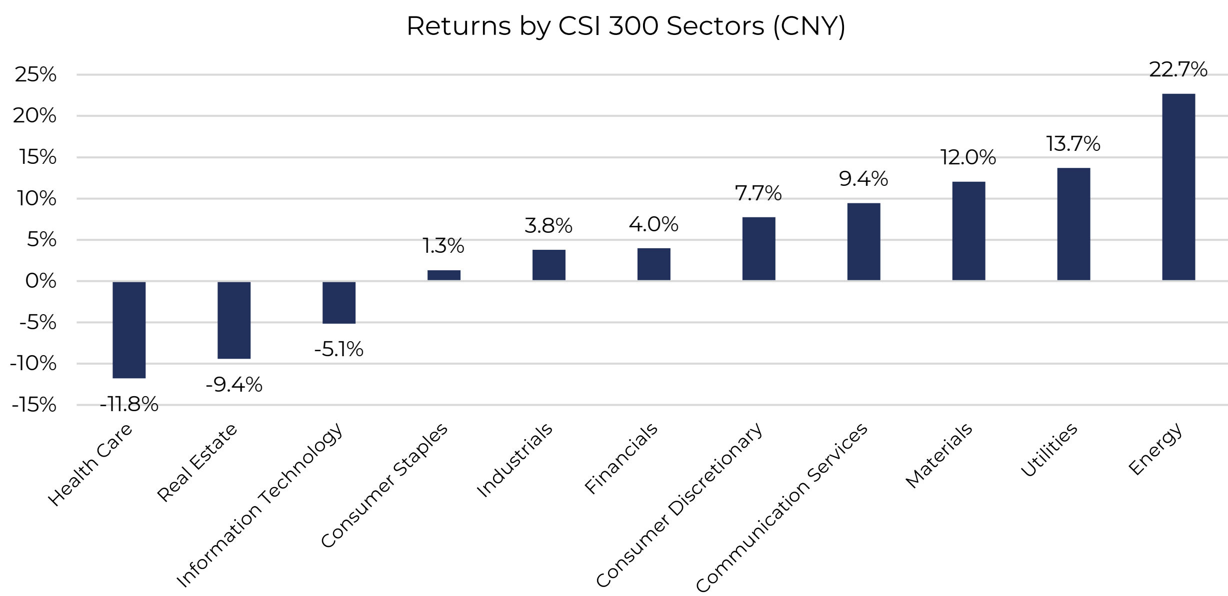
In March, markets stabilised as the benchmark fell slightly by 0.2%. There were no major news events but the macro data covering January and February was generally better than expectations. Industrial production rose by 7.0% year-on-year while manufacturing investment rose by 9.4% despite the 9.0% drop in real estate investment.





Data from 31/12/23 to 31/03/24, returns in CNY, source: Bloomberg, Guinness Global Investors calculations

Growth stocks significantly underperformed value stocks. The MSCI China A Onshore Growth Index fell by 4.3% while the corresponding value index rose by 6.9%. We also highlight the significant differences between smaller and larger companies. Due to greater support from the National Team, large-caps (as measured by the CSI 300 Index) outperformed, rising 3.1%. Meanwhile mid-caps and small-caps, which overall benefited less from government support, fell 2.6% and 7.6% respectively.



Data from 31/12/23 to 31/03/24, returns in CNY, source: Bloomberg, Guinness Global Investors calculations

In the first quarter, the best performing sectors in the CSI 300 Index were Energy (total return +22.7%), Utilities (+13.7%) and Materials (+12.0%). Rising crude oil prices led to strength for oil names, which also benefited from greater attention towards value stocks. Within Materials, stronger names in the market were Zijin Mining, CMOC Group and Aluminium Corporation. Utilities benefited as a defensive sector in a risk-off environment at the beginning of the year.

The weakest sectors were Health Care (total return -11.8%), Real Estate (-9.4%) and Information Technology (-5.1%). In Health Care, 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 Apptech and Walvax Biotech. Real Estate names were weak as volume of property sold continues to fall, along with prices. Within Information Technology, weaker names were Luxshare Precision, Longi Green Energy and Maxscend Microelectronics.

STOCK COMMENTARY

The top performing stocks in the Fund in the quarter were Haier Smart Home (total return of +18.8% in CNY), Hangzhou First Applied Material (+17.1%) and Zhejiang Supor (+9.8%). Haier Smart Home grew revenue by 7% and earnings per share (EPS) by 13% in 2023. Management are targeting at least high single-digit growth in 2024, driven by premium brand Casarte, growing export sales for air conditioners, and general improvements in efficiency. Hangzhou First Applied Material is the world's largest manufacturer of solar film, which protects solar panels. Though the company has not yet reported its fourth quarter results, management are expecting global demand for solar modules to increase by 20-30% this year. In the first quarter of 2024, the company is expecting its solar film shipments to increase by 30% in volume terms on a year-on-year basis. This is to be driven by China, Europe and central Asian countries. To diversify its production facilities, new factories are being built in Vietnam and Thailand. Zhejiang Supor grew both revenue and EPS by 6% and in 2023. Management expect competition to remain intense domestically but are still aiming to grow domestic sales with solid margins. Export sales are also likely to grow slightly, driven by parent company Groupe SEB.

The weakest stocks were Shenzhen Capchem Technology (-27.3%), Juewei Food (-27.3%) and Shandong Sinocera Functional Material (-25.7%). Shenzhen Capchem is one of China's largest battery electrolyte manufacturers. With electrolyte prices falling, profitability has deteriorated and it is likely to take time for overcapacity to narrow in the industry. The fluorine chemical business also saw a drop in margins as a new facility opened, increasing expenses while taking time to contribute to sales. Juewei Food sells braised food snacks and uses a franchise model. While the business is recovering on a year-on-year basis, growth has not been as strong as expected following China's reopening. Shandong Sinocera Functional Material is a manufacturer of advanced ceramic materials used in electronic products, catalytics, dental prosthetics and construction. Management guided for revenue growth of 20-23% in 2023 but margins are likely to be weaker than expected.

ATTRIBUTION

In the first quarter, the Guinness China A Share Fund (Y class, USD) fell by 8.1%, while the benchmark, the MSCI China A Onshore Index, fell by 0.7%.

In the first quarter, relative to the MSCI China A Onshore Index, areas which helped the Fund's performance were:

- Strong individual performance from Haier Smart Home (total return +18.8% in CNY), Hangzhou First Applied Material (+17.1%), Zhejiang Supor (+9.8%), Nari Technology (+9.1%) and Xiamen Faratronic (+9.1%).

- Both stock selection and the underweight to the Health Care sector, driven by not holding Wuxi Apptech and Walvax Biotech. Additionally, Fund holdings Amoy Diagnostics (-0.5%) and Shenzhen Mindray (-3.2%) outperformed the sector significantly.

In the first quarter, areas which detracted from the Fund's relative performance were:

- The Fund's factor profile worked against it in the quarter. The overweights to growth and smaller companies detracted from performance, as these areas were relatively weak. The Fund's bias towards quality stocks also worked against it as banks, metals & mining and oil & gas companies were the strongest industries in the quarter. The Fund has no exposure to these industries as within them, we find very few high-quality, profitable companies which give exposure to the structural growth drivers in China.

- The underperformance of growth versus value. The MSCI China A Onshore Growth Index fell by 4.3% while the corresponding value index rose by 6.9%. The Guinness China A Share Fund targets quality, growing stocks which give exposure to the structural growth themes in China. We expect the Fund's performance overall to move more in line with the growth index rather than the value index. In the quarter, it is notable that the large state-owned banks (classed as value) did very well, and here we have zero exposure as these banks do not, in our opinion, give exposure to the structural growth opportunities in China. Banking is the largest industry within the MSCI China A Onshore Index, with a 9.8% weight. It was also the greatest contributor to the performance of the MSCI China A Onshore Index in the quarter.

- The size factor also worked against the Fund. Due to greater support from the National Team, large-caps (as measured by the CSI 300 Index outperformed), rising 3.1% in CNY. Mid-caps and small-caps, which overall benefited less from government support, fell 2.6% and 7.6% respectively. The average market capitalisation of the companies in the Fund is $12.2bn and so overall, our companies' performance in the quarter reflected the performance of the CSI 500 and CSI 1000 indexes.

- Stock selection in the Materials sector, driven by Shenzhen Capchem Technology (total return -27.3% in CNY), Shandong Sinocera Functional Material (-25.7%) and Shanghai Putailai New Energy Technology (-7.9%). We also did not hold the Materials names which were strong in the quarter. These were related to mining and metals companies, which do not generally make the quality threshold we target in the Fund. While the quality profile of these companies is poor, they were still the second largest contributor to performance for the benchmark.

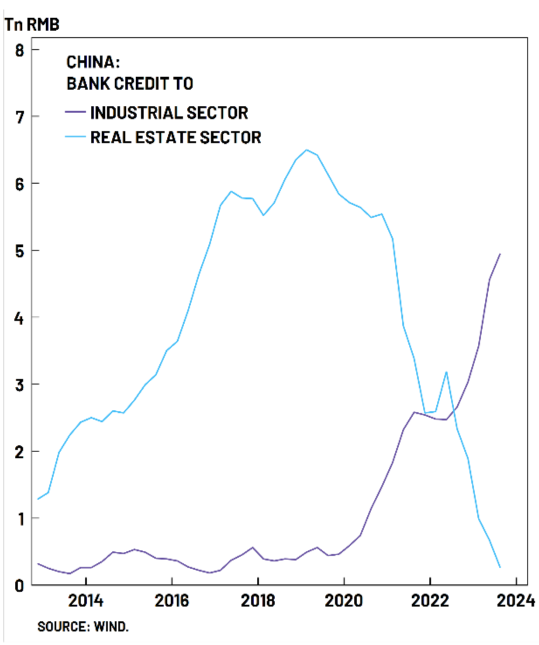
- Stock selection in the Industrials sector, driven by Sinoseal (-13.1%), Hongfa Technology (-8.9%), Jiangsu Hengli Hydraulic (-8.3%) and Wuxi Lead Intelligent Equipment (-5.6%).

- Stock selection in the Information Technology sector, driven by Zhejiang Jingsheng Mechanical & Electrical (-22.3%), Sino Wealth Electronic (-22.6%), Venustech (-23.0%) and Shenzhen H&T Intelligent (-11.3%).

- Underweight to Energy, where the Fund has no exposure. The Fund targets quality companies which give exposure to the structural growth themes in China. In our universe, there are very few Energy names which give this exposure.

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.

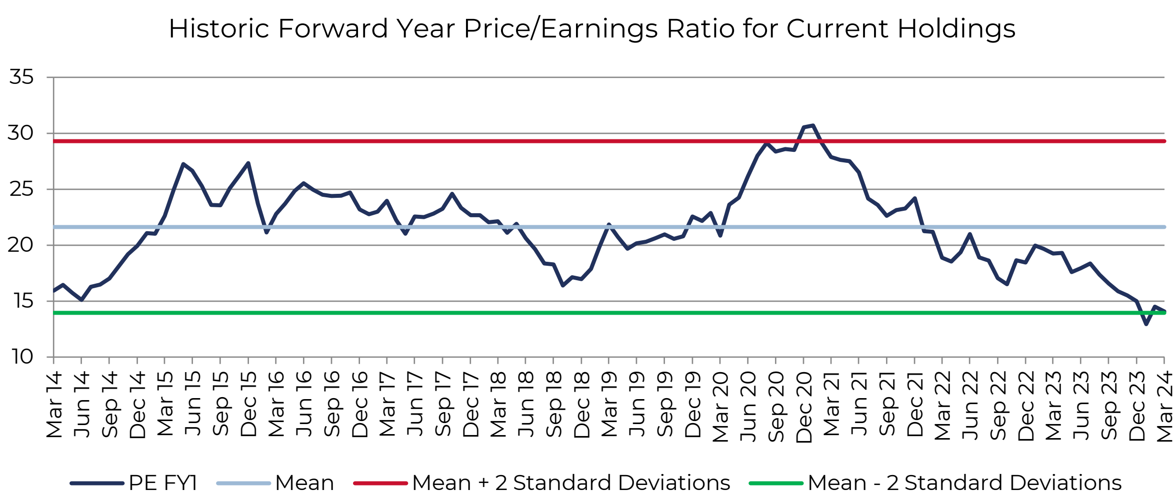
When could the new pillar industries reach this point? Goldman Sachs looked specifically at EVs, batteries, wind and solar power generation as their proxies for the pillar industries. In their scenario, the new pillar industries become large enough to offset the weakness in property by 2028, assuming 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.

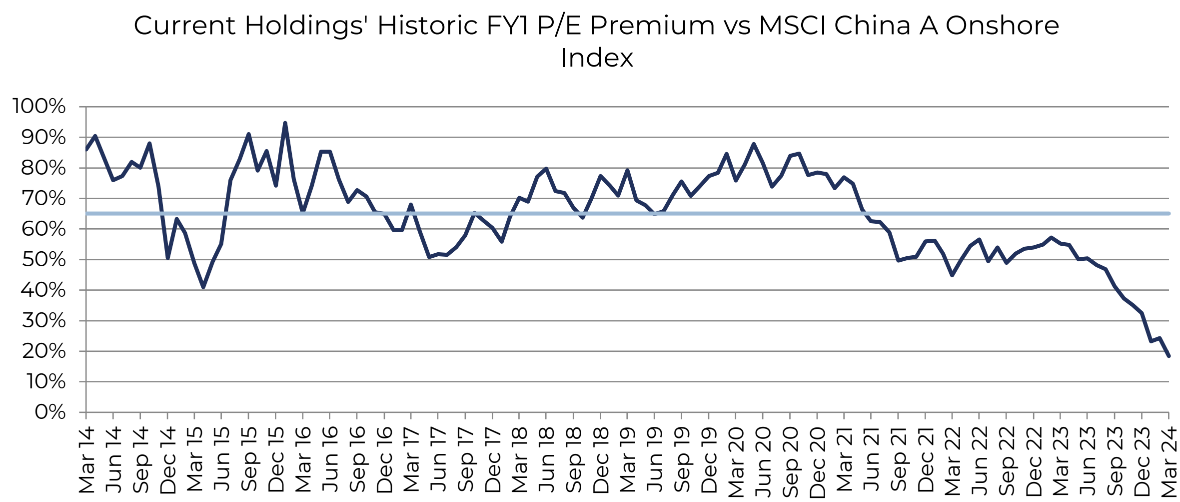
However this point is still a few years away. Until then, government stimulus is needed to help the economic navigate the ongoing economic transition. In January, the required reserve ratio (RRR) was cut by 0.5 percentage points. Relending and rediscount rates for the rural sector and small and medium enterprises (SMES) was cut by 0.25 percentage points. In February, the five year loan prime rate (LPR) was cut by 0.25%, to 3.95%, marking the biggest cut ever.

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. On estimated 2024 earnings, the Fund's holdings in aggregate are trading at a forward price/earnings ratio of 14.8x, which is now more than two standard deviations below the holdings' 10-year average.

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 23% in 2024 and 19% in 2025. At current valuations, we believe this represents outstanding value to investors for the growth on offer. As a result of the significant recent underperformance of growth stocks and smaller companies, the current holdings' aggregate premium to the market (in terms of price/earnings multiple) has now fallen to 18%. We emphasise this is unprecedented for our companies, compared to the historic premium over the past decade. Despite the market expecting our companies to grow at a similar rate to their historic average, the Fund is trading at the lowest premium over the past decade, which is where we argue the opportunity lies for investors.





Data from 31/03/14 to 31/03/24, source: Bloomberg, Guinness Global Investors calculations. Historic data for the Fund's current holdings; the Fund was launched on 09/03/2023. Calculations assume an equally weighted portfolio.

Portfolio Managers

Sharukh Malik
Edmund Harriss

GUINNESS CHINA A SHARE FUND - FUND FACTS

Fund size	$0.8m
Fund launch	09.03.2023
OCF	0.89%
Benchmark	MSCI China A Onshore TR

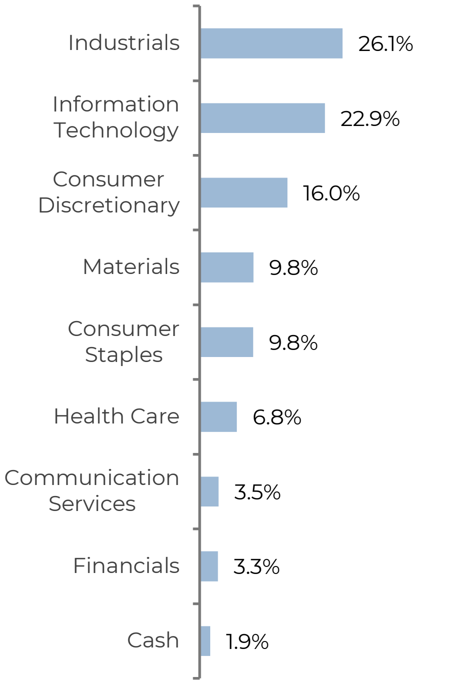
GUINNESS CHINA A SHARE FUND - PORTFOLIO

Top 10 holdings

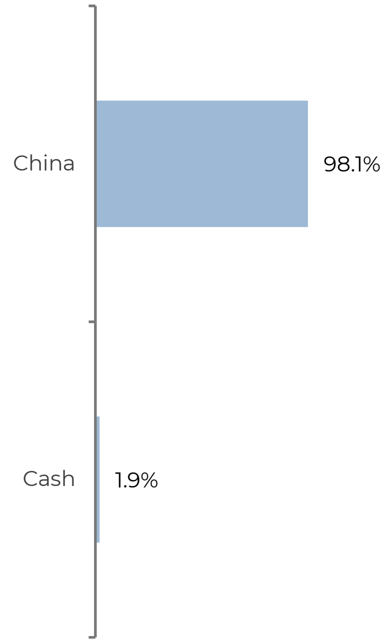
G-bits Network Technology Xiamen	3.5%
Shenzhen Mindray Bio-Medical Equip.	3.4%
Venustech Group	3.4%
Haier Smart Home	3.4%
Shenzhen H&T Intelligent	3.4%
Amoy Diagnostics	3.3%
China Tourism Group Duty Free	3.3%
Hangzhou First Applied Materials	3.3%
Sinoseal Holding	3.3%
Sino Wealth Electronic	3.3%

Top 10 holdings	33.7%
Number of holdings	30

Sector



Country



Past performance does not predict future returns.

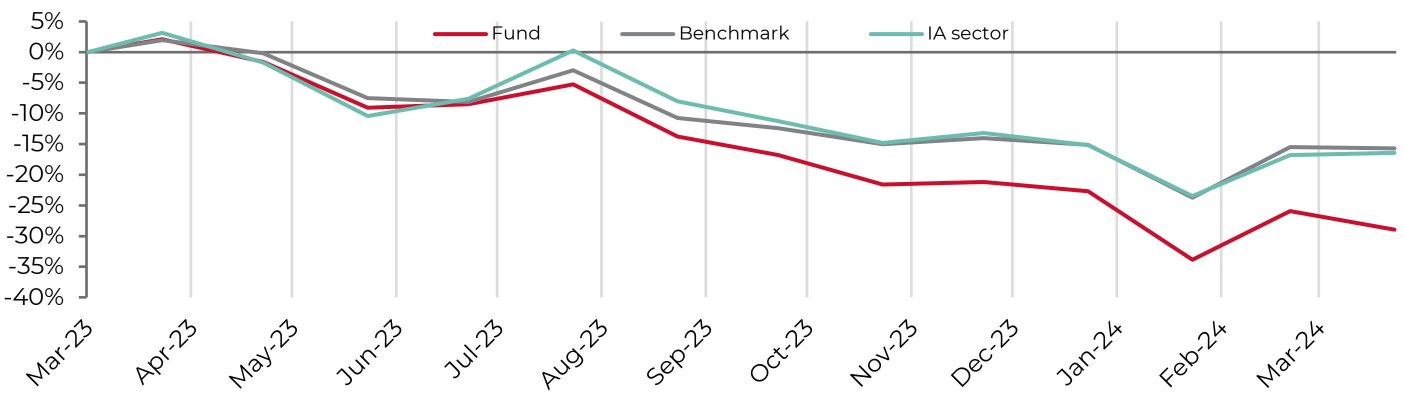
GUINNESS CHINA A SHARE FUND - CUMULATIVE PERFORMANCE

(GBP)	1 Month	YTD	1 yr	3 yr	5 yr	10 yr
Fund	-4.0%	-7.3%	-31.9%	-	-	-
MSCI China A Onshore TR	-0.1%	+0.2%	-19.0%	-	-	-
IA China/Greater China TR	+0.6%	-0.6%	-20.7%	-	-	-
(USD)	**1 Month**	**YTD**	**1 yr**	**3 yr**	**5 yr**	**10 yr**
Fund	-4.1%	-8.1%	-30.4%	-	-	-
MSCI China A Onshore TR	-0.2%	-0.7%	-17.3%	-	-	-
IA China/Greater China TR	+0.5%	-1.5%	-18.9%	-	-	-
(EUR)	**1 Month**	**YTD**	**1 yr**	**3 yr**	**5 yr**	**10 yr**
Fund	-3.9%	-6.0%	-30.0%	-	-	-
MSCI China A Onshore TR	+0.0%	+1.6%	-16.8%	-	-	-
IA China/Greater China TR	+0.7%	+0.8%	-18.5%	-	-	-

GUINNESS CHINA A SHARE FUND - ANNUAL PERFORMANCE

(GBP)	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Fund	-	-	-	-	-	-	-	-	-	-
MSCI China A Onshore TR	-	-	-	-	-	-	-	-	-	-
IA China/Greater China TR	-	-	-	-	-	-	-	-	-	-
(USD)	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Fund	-	-	-	-	-	-	-	-	-	-
MSCI China A Onshore TR	-	-	-	-	-	-	-	-	-	-
IA China/Greater China TR	-	-	-	-	-	-	-	-	-	-
(EUR)	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Fund	-	-	-	-	-	-	-	-	-	-
MSCI China A Onshore TR	-	-	-	-	-	-	-	-	-	-
IA China/Greater China TR	-	-	-	-	-	-	-	-	-	-

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



Source: FE fundinfo to 31.03.24. 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 .

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.