Guinness Best of China Fund

Investment Commentary - July 2022

This is a marketing communication. Please refer to the prospectus and KIID for the Fund before making any final investment decisions. Past performance does not predict future returns.

ABOUT THE FUND

Launch	15.12.2015
Benchmark	MSCI Golden Dragon
Sector	IA China/Greater China
Team	Edmund Harriss (Manager) Sharukh Malik (Manager) Mark Hammonds

Aim

The Guinness Best of 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.

RISK

◀ Lower risk			Risk & reward			Higher risk ▶
1	2	3	4	5	**6**	7

Typically lower rewards — Typically higher rewards

The risk and reward indicator shows where the Fund ranks in terms of its potential risk and return. The Fund has been classed as 6 because its volatility has been measured as above average to high. Historic data may not be a reliable indicator for the future. The value of an investment and the income from it can fall as well as rise as a result of market and currency movement; you may not get back the amount originally invested.

PERFORMANCE

Past performance does not predict future returns

30/06/2022	1 year	3 years	5 years	Launch*
Fund	-7.1	23.0	28.0	94.7
Index	-17.2	14.0	30.6	102.0
Sector	-17.0	20.5	39.0	102.0

Discrete 12m performance is shown at the end of this commentary. Source: FE fundinfo, bid to bid, total return. *Launch: 15.12.2015. 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 fund performance shown has been reduced by the current OCF of 0.89% per annum. Returns for share classes with a different OCF will vary accordingly. The performance returns do not reflect any initial charge; any such charge will also reduce the return.

SUMMARY

In the first half of the year, the Guinness Best of China Fund fell 1.8% while the benchmark, the MSCI Golden Dragon Net Total Return Index (MSCI Golden Dragon Index) fell 4.8%, and the MSCI China Net Total Return Index (MSCI China Index) fell 1.4% (in GBP). The Golden Dragon Index is a weighted average of the China, Hong Kong and Taiwan indexes. Given that Taiwan accounts for c.26% of the Golden Dragon Index, and MSCI Taiwan fell 19.0% (in GBP), the Golden Dragon index did comparatively worse than the China index.

We sold three positions in the first half of the year: China Resources Gas, Novatek Microelectronics and another position which will be disclosed when complete.

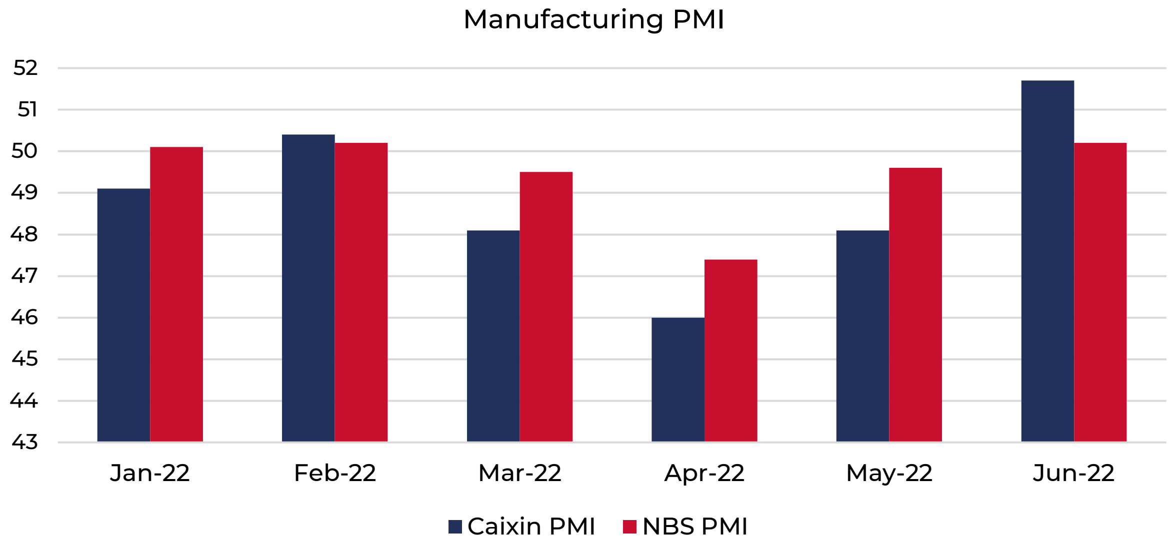
We bought three positions: Shenzhou International, Shenzhen Inovance Technology and Hong Kong Exchanges & Clearing.

The Fund is valued at 15.3x on estimated 2022 earnings, which puts it at a 19% premium to the MSCI China Index. We feel this premium is worth paying for the structural growth that the Fund provides. Over the past 10 years, the Fund's holdings have grown net income by 286%, compared to virtually no growth for the MSCI China Index.

MACRO COMMENTARY

China faced a surge in Covid cases which peaked in April. Given the country is still pursuing its zero-Covid policy, these cases led to relatively brief lockdowns in Shenzhen and Jilin province. However, in Shanghai, officials understandably tried to minimise the impact on the economy and focused on locking down specific neighbourhoods. Nevertheless, by this point cases had already reached a critical level, made even worse by the more transmissible Omicron variant. Cases in Shanghai surged out of control and the city was in full lockdown in April and May. Other cities, including Beijing, were also under threat of entering a full lockdown but due to much earlier restrictions this was avoided.

The cost of the lockdowns and restrictions across the country was seen in very weak economic data between March and May. The Caixin Purchasing Managers Index (PMI), which is more geared towards private businesses, fell sharply from 50.4 in February to 48.1 in March and 46.0 in April. The same trend, though not as steep, was seen in the National Bureau of Statistics (NBS) PMI, which is more geared towards state owned enterprises. Retail sales fell 3.5% year-on-year in March and 11.1% in April.

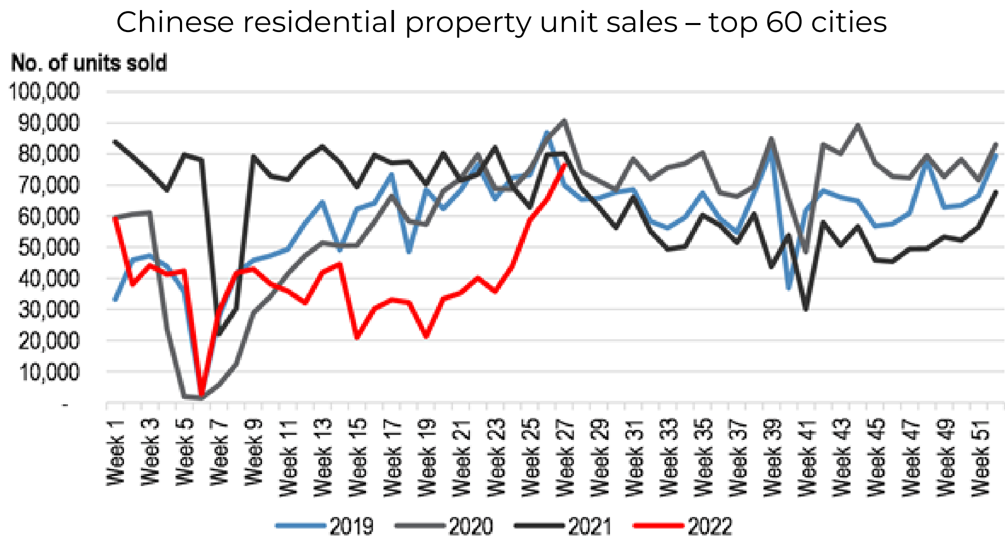


(Data from 31/12/21 to 30/06/22, source: Bloomberg, Guinness Global Investors calculations)

Shanghai's lockdown was lifted at the very beginning of June and since then the Covid situation has improved. At the end of June, of the largest 100 cities, which account for 70% of China's GDP, more than half had no lockdown restrictions. Of the remaining cities, most had relatively loose measures in place. We are seeing more people being asked to conduct regular Covid tests every 3-5 days in order to enter public venues. A national Covid pass, which checks if one has the virus or is an area with a moderate level of cases, is also required to move between cities. In the next few months, we expect this to continue to be the norm.

We expect Covid outbreaks and the zero-Covid policy to continue as we think the Omicron variant is too transmissible to eliminate completely. Given the outcome in Shanghai, we do not expect local leaders to take any chances in their approach. Earlier intervention in the form of movement restrictions, as well as mass testing, is likely to be the common response in the coming months. On a positive note, we have seen one small policy change: close contacts of people infected with Covid now need to isolate for 10 days, which has been cut from 14 days. International travellers are also required to isolate for 10 days, which has been cut from 21 days.

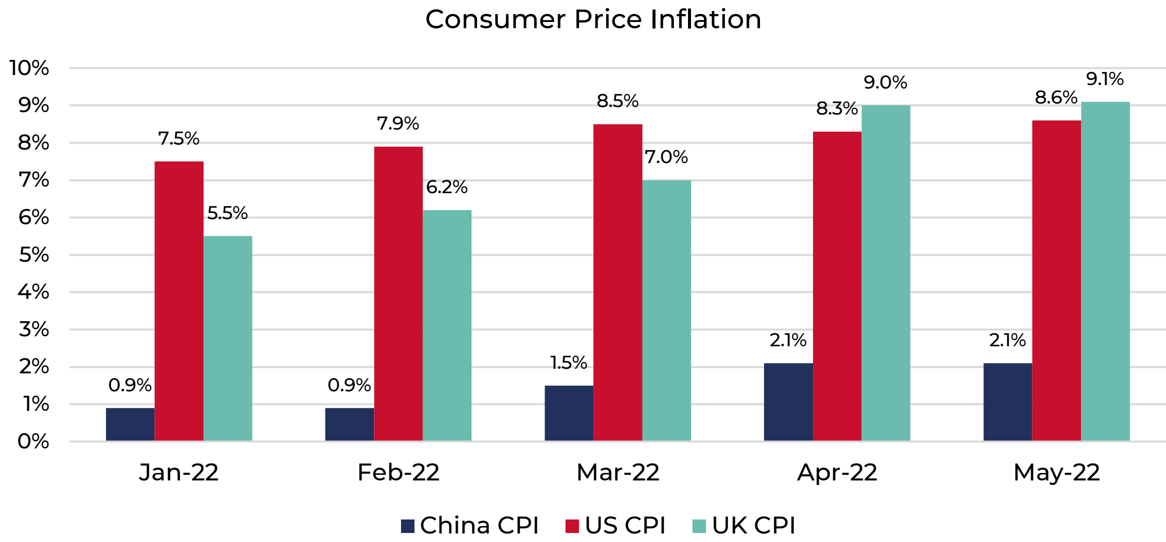
Given the improvement in Covid cases, we have seen a sharp recovery in economic data. The Caixin PMI rose from 46.0 in April to 48.1 in May and 51.7 in June (a reading above 50.0 indicates expansionary activity). After falling 7.7% in April, industrial production rose 3.2% in May. The most recent indications from China show that a recovery in the residential property market is indeed underway. The red line in the chart below shows a smart pick up in unit sales in the top 60 cities in both absolute terms and compared to the same time of year in the last three years:



(Source: CREIS, JP Morgan Research)

Inflation

Inflation in China is, unlike in most developed countries, not a huge problem. Consumer price inflation (CPI) was 2.1% in May, significantly below the US at 8.6% and the UK at 9.1%. While no doubt China's weak demand during the lockdowns dampened inflation, even before the lockdowns, CPI was 0.9% in January and February. While producer price inflation (PPI) in China was 6.4% in May, this was lower than April's reading of 8.0% and March's of 8.3%. On the other hand, in May producer inflation in the US was 10.8% (as measured by final demand) and in the UK it was 22.1%.



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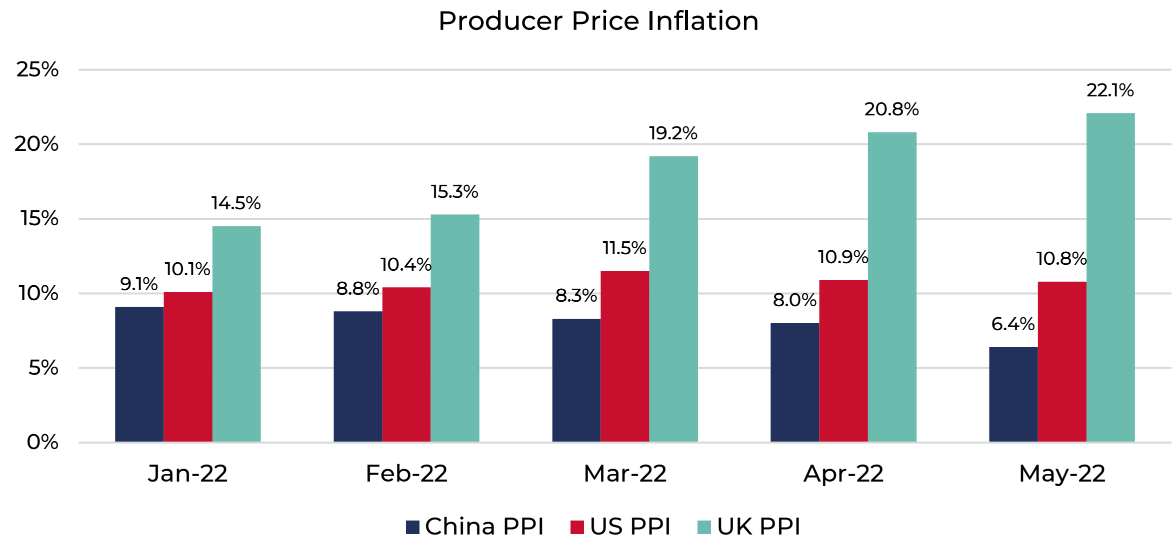
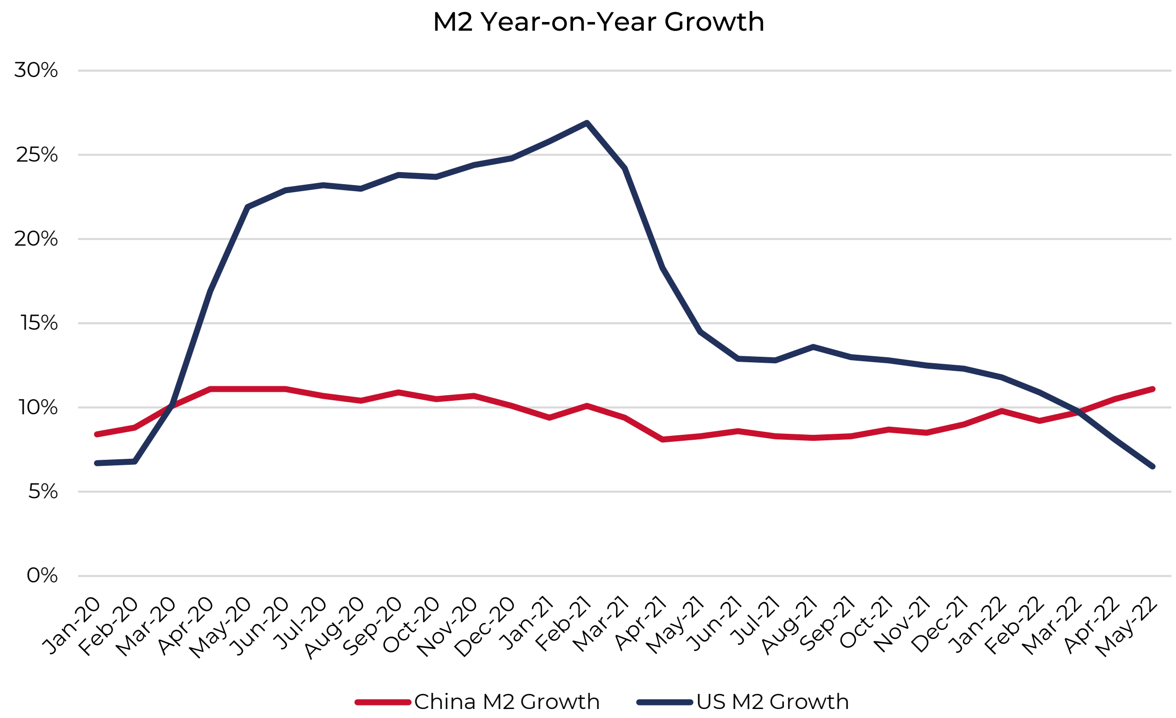


(Data from 31/12/21 to 30/06/22, source: Bloomberg, Guinness Global Investors calculations)

There are numerous reasons why inflation is not as significant in China. The first relates to the demand side. In response to the original Covid outbreak, central banks in developed countries loosened monetary policy considerably. The chart below shows the US significantly increased its money supply in 2020 and while the pace of increase slowed in 2021, it was still substantial. Meanwhile in China, the money supply growth rate moderated in 2020 and 2021. In 2022, we can see the situation has reversed as the US is tightening while China is accelerating.



(Data from 31/12/20 to 30/06/22, source: Bloomberg, Guinness Global Investors calculations)

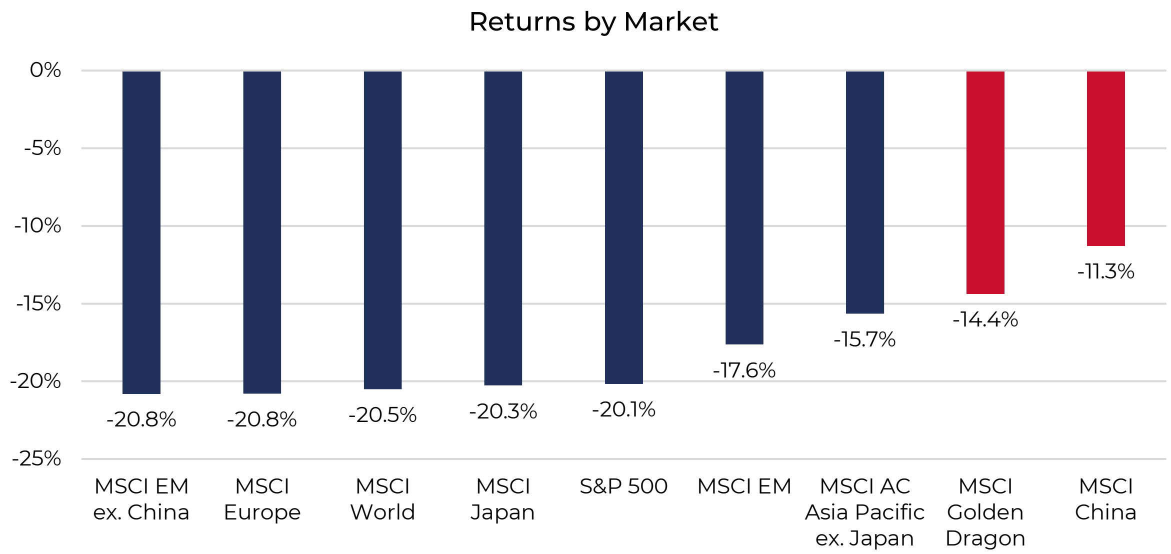
Additionally, the lockdowns in China have dampened demand. We expect as China loosens movement restrictions, demand is likely to increase which should add upward pressure to inflation.

But inflation pressures are not solely the result of strong demand, which interest rates are best suited to address, but also a product of supply side shortages where interest rates are less effective. In developed countries, the mix of higher prices from the supply side and weaker demand resulting from higher interest rates is the basis for a potentially stagflationary environment. Added to that, in developed markets rising bond yields increase the interest burden on public finances. This is important following a significant increase in public debt during recent years of low interest rates and lifted further by Covid support programmes in 2020. This limits the options available for cyclical support and indeed could see a higher tax burden on business and consumers in developed markets.

China does not have this particular issue. China's sovereign bond yield curve has barely moved this year; the 1-year bond yield has moved 0.26% lower in anticipation of monetary easing in China, in marked contrast to almost everywhere else. Across maturities out to 30 years, there has been almost no change. In the US, the 1-year bond has moved 1.15% higher and then across maturities out to 30 years, yields are 0.50% to 0.85% higher. The result is that as at the end of the first half of the year, Chinese bond yields have moved from an average of 1.34% higher the US Treasuries to an average of 0.37% below.

MARKET COMMENTARY

Chinese markets were volatile but despite this volatility, outperformed developed markets. In the first six months of the year, the MSCI China Index fell 11.3% (in USD) compared to the MSCI World Index which fell 20.5% and the S&P 500 Index which fell 20.1%.



(Data from 31/12/21 to 30/06/22, returns in USD, source: Bloomberg, Guinness Global Investors calculations)

In January, expectations of rising interest rates in the US led to weakness for growth stocks globally and in China. The People's Bank of China (PBOC) cut a set of interest rates by 0.1%. While these moves by the PBOC were encouraging in that they signalled a marginal loosening of monetary policy, we did not regard them as significant enough to stimulate economic growth.

In February, Chinese tech stocks were subject to more headwinds. Meituan, the food delivery service company, was told by the government to reduce its services charges, to help smaller and medium sized vendors on its platform. News reports indicated banks were being asked about their exposure to Ant Group, which is owned by Alibaba, and so led to weakness in Alibaba's share price. There were also news reports suggesting Tencent and other video game developers could be subject to more regulations over their new releases, as well as over their operations in the metaverse. (In some signs of easing, the regulator issued licenses for 45 new games in April after a nine-month hiatus.) Later in the month, Russia invaded Ukraine which led to further volatility in markets – please see our update published in March for our views of the effect of the invasion on China.

In March, Chinese markets fell by the most since the global financial crisis. The MSCI China Index fell 7.7% on 14/03 and a further 6.1% on 15/03. We believe this was due to several reasons, which all combined to create a sense of panic selling:

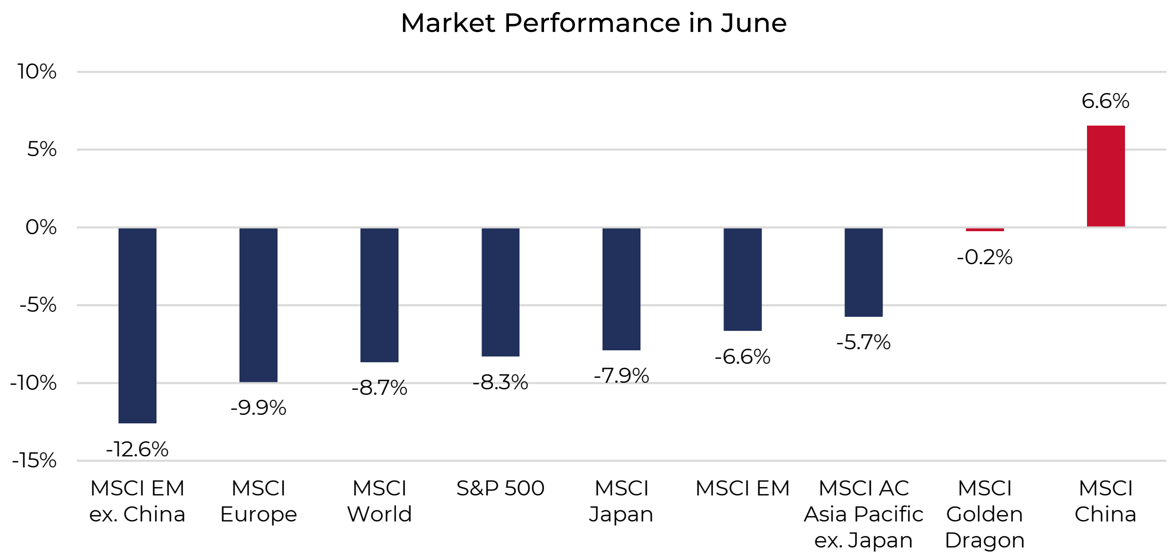
- Rising Covid cases in China, prompting a tougher government response in line with its zero-Covid strategy.
- The potential that China could be sanctioned by the US if it provided military support to Russia.
- Risk of China ADRs delisting in the US, in response to the Holding Foreign Companies Accountable Act (HFCAA).
- Weakening Chinese economy and lack of significant fiscal and monetary support.
- Very weak sentiment towards China tech stocks with talk of it being un-investable during the peak of the sell-off.

On 16/03, Vice Premier Liu He convened a meeting, chairing the Financial Stability Committee. The committee released a series of statements which markets reacted positively to:

- The committee recognised the need to loosen monetary policy in order to reach the GDP target of 5.5% growth for 2022.
- China aiming to cooperate with the US on accounting issues related to the ADRs.
- Regulation on tech to be completed as soon as possible.
- Government departments to coordinate regulations and policies to better consider the impact on the economy.

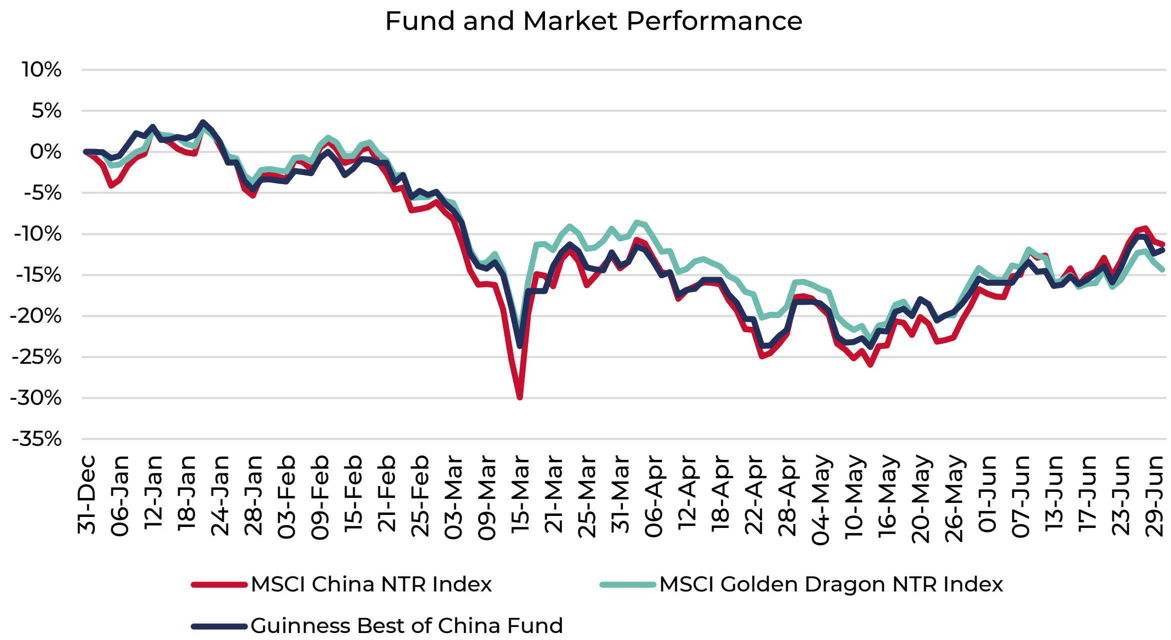
Chinese markets then rallied sharply on the news, increasing 14.6% on 16/03 and a further 6.0% on 17/03, before essentially being flat for the rest of the month.

In April, Chinese markets fell but were outperformers relative to its developed market counterparts. The MSCI China Index fell 4.1% while the S&P 500 Index fell 8.7%. The Chinese government continued to state it would stimulate the economy, repeating old promises, but markets remained unconvinced. Chinese markets rose by 1.2% in May but the month really had two phases. In the first half, Chinese markets had fallen by as much as 10.0% as Shanghai was still in lockdown and fears were building that Beijing would follow too. However as Covid case rates began to improve and further economic stimulus was announced, markets rebounded over the rest of the month, meaning Chinese markets rose in May. This optimism continued into June, as the MSCI China Index rose 6.7% while the S&P 500 Index fell 8.3% and the MSCI World Index fell 8.7%.



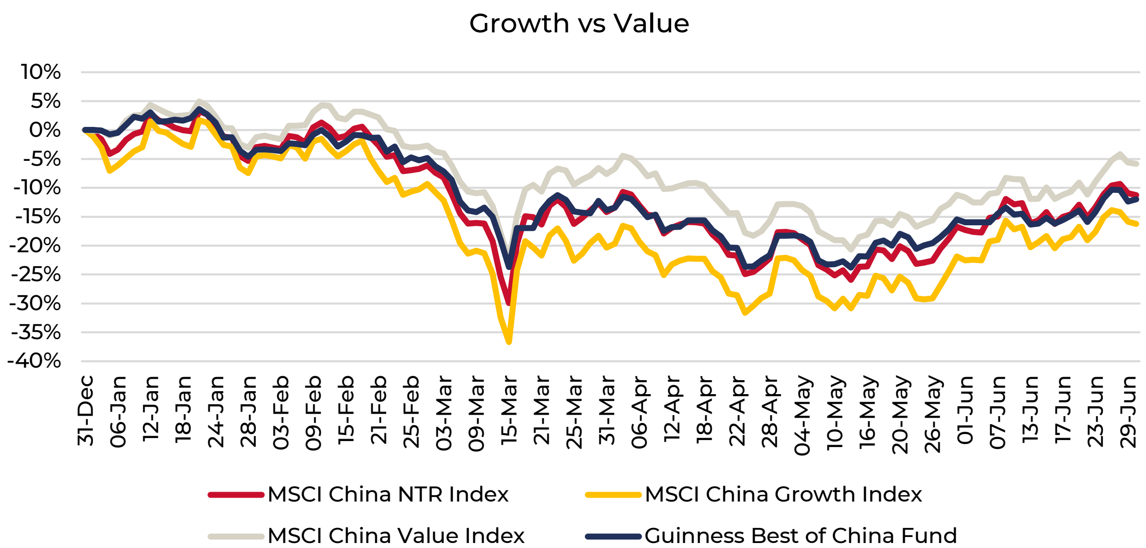
(Data from 31/05/22 to 30/06/22, returns in USD, source: Bloomberg, Guinness Global Investors calculations)

We argue the Fund navigated the volatility well, especially during the sell-off, and did well to capture the consequent rally in May and June, leaving it a marginal 0.6% (in USD) behind the MSCI China Index over the year to date, as shown below.



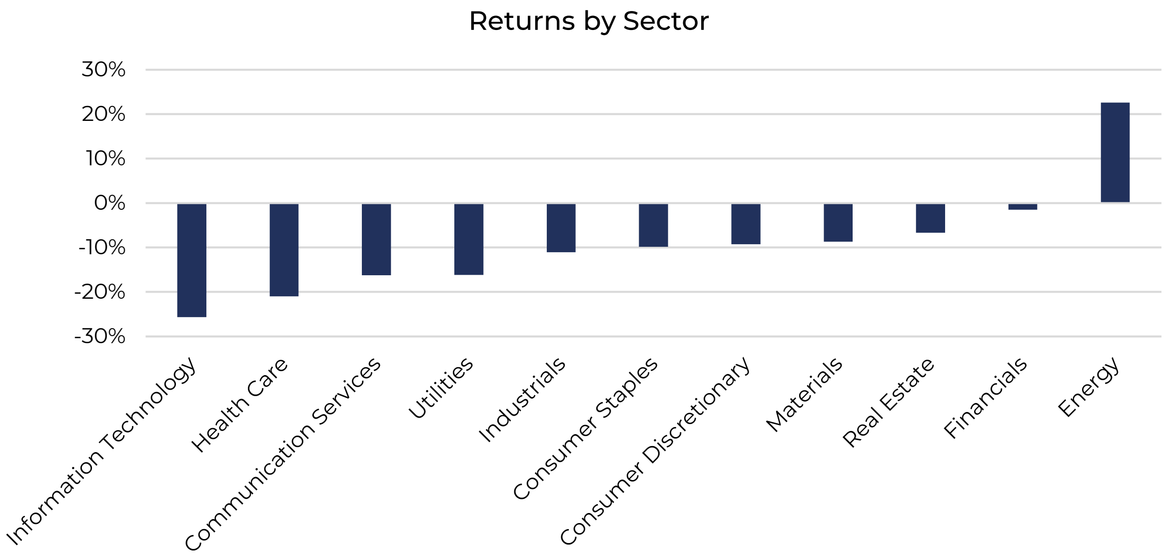
(Data from 31/12/21 to 30/06/22, returns in USD, source: Bloomberg, Guinness Global Investors calculations)

In the first half of the year, value stocks did better than growth, as the MSCI China Value Index fell 5.8% while the Growth Index fell 16.3%. For comparison, the Fund fell 12.0% so outperformed the Growth Index.



(Data from 31/12/21 to 30/06/22, returns in USD, source: Bloomberg, Guinness Global Investors calculations)

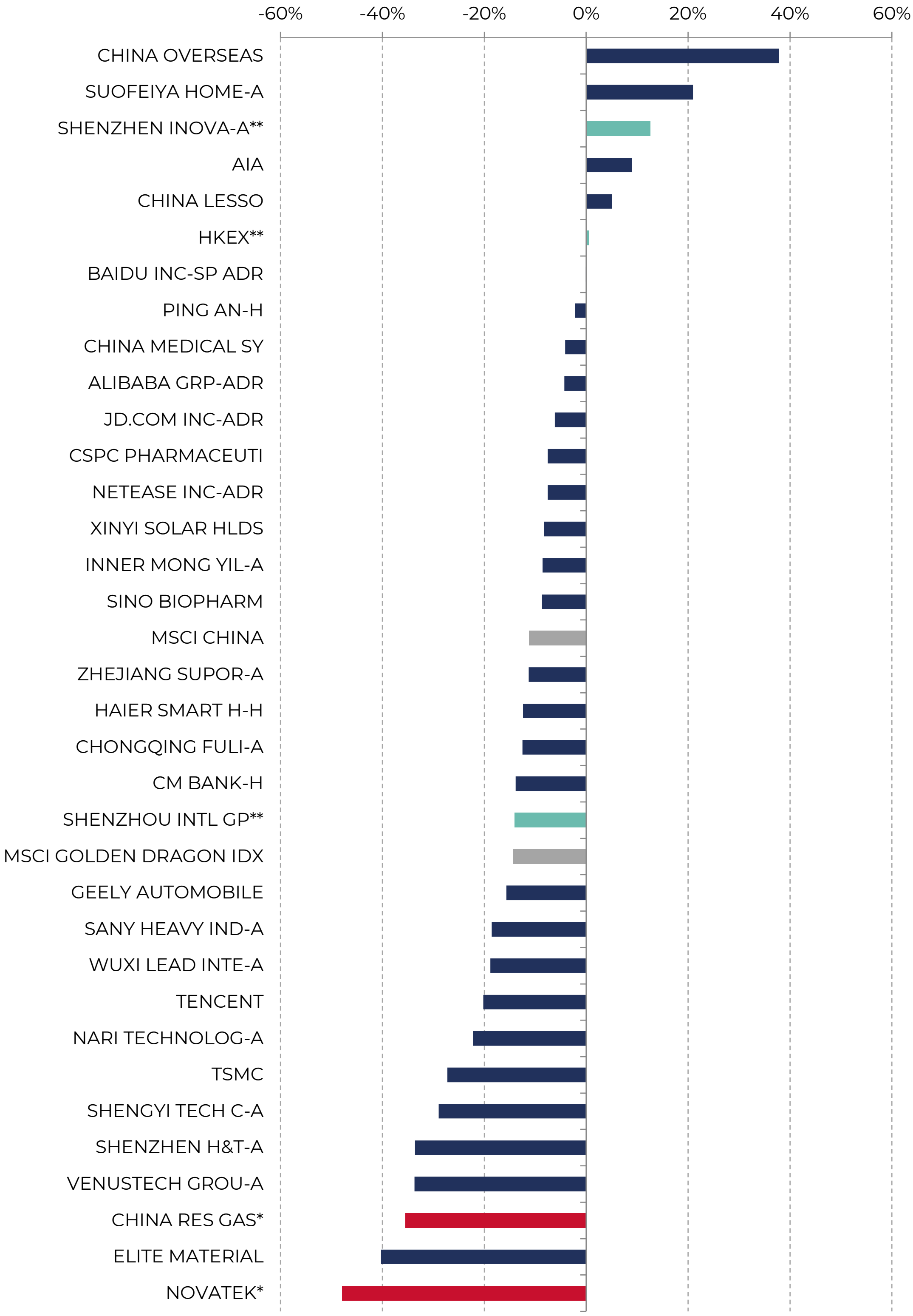
As oil, gas and coal prices rallied, Energy was by far the best performing sector in the first half of the year. Financials, which contain the Chinese state-owned banks, were also outperformers as investors turned to cheaper stocks in the period. Despite the negative sentiment, Real Estate was an outperformer as the market looks to easing measures which should stimulate the property market. The postponement of a long-discussed property tax also boosted sentiment. On the other hand, Information Technology, Healthcare and Communication Services were laggards.



(Data from 31/12/21 to 30/06/22, returns in USD, source: Bloomberg, Guinness Global Investors calculations)

PERFORMANCE

Individual stock performance over in 1H (total return USD)



(Data from 31/12/21 to 30/06/22, returns in USD, source: Bloomberg, Guinness Global Investors calculations) * sells, ** buys

Leaders

The Fund's best performing stock was China Overseas Land & Investment (COLI), which is a state-owned property developer. In the first five months of the year, property sales had fallen 39% which was in line with peers. This reflects the current weak state of the property market. On the other hand, given the company's strong balance sheet, COLI has been active in acquiring land. In the first five months of the year, the business had acquired CNY 32.0bn of land, which assuming an exchange rate of USDCNY 6.70, is worth c.$4.8bn. As policymakers are loosening policy to stimulate the property market, COLI's valuation multiple has re-rated, from 3.8x FY1 P/E in Dec-21 to 5.8x in Jun-22 i.e. a 53% increase. To put this into context, COLI's 10-year average P/E is 7.0x, so if the property market does indeed strengthen, we think there is more room for a rerating.

Suofeiya is manufacturer of kitchen cabinets and so has exposure to the property market. In the first quarter, revenue grew 14% but net profit fell 3%. The loss of Evergrande revenue was offset by strong growth in the retail channel. Though volumes are flat, the company has promoted its packaged products which led to a 10-15% increase in average ticket size. The company is also increasing its exposure to state owned property developers, such as COLI, who are performing better than private developers in a weak environment. To offset some of the increase in raw material costs, Suofeiya increased prices by low single digits in March. Like with COLI, as sentiment towards the property market has improved, Suofeiya's valuation multiple has also seen a rerating. The forward P/E ratio increased from c.12.9x in Dec-21 to 18.6x in Jun-22 i.e. a 44% increase.

AIA Group reported first quarter results where value of new business fell 19%, in line with expectations. Greater demand from mainland Chinese buying insurance in Macau was a positive surprise. However, the lockdown in Shanghai and restrictions in Beijing are likely to mean weak second quarter results for the China business. That said, AIA's Tianjin and Shijiazhuang branches obtained full licenses, allowing the company to open more branches in these cities. The recently approved Henan branch is in the process of hiring a management team and AIA aims to have 400 agents for the launch in the province. The company sees the middle class in China as being the growth driver for the business over the next decade.

China Lesso is a manufacturer of plastic pipes. Given the slowdown in the economy last year, its valuation multiple fell from a high of 12.2x to 5.7x in Dec-21. As the market has paid more attention to policy stimulus as well as value stocks, the stock has benefited from a rerating to 8.0x.

Baidu benefited from the attention to value stocks. While advertising revenue in the search segment is falling year-on-year it is increasing in the social feed. This is a sign that the company is having some success in keeping users entertained with their short form videos. Furthermore, as the government is lowering the 'walled gardens' which locked content into platforms, users on Baidu's platform are now able to access content from other platforms. We expect that in due course, Baidu's users will also be able to access content from Douyin (which operates Tiktok). The company is also committed to improving group margins which we expect to lead to more interest in the stock.

Laggards

Novatek Microelectronics was the weakest stock in the portfolio as demand in various end markets softens. Consensus analyst estimates show the market is not expecting any earnings growth over the next three years. Novatek's key end markets, laptop, smartphones and TVs, are weakening, which is likely to weaken prices further. Rising competition from China is another risk over the next few years. We felt that though the stock's multiple has fallen to reflect the deteriorating outlook, we did not see the catalyst for a rerating. Therefore we sold the stock.

Elite Material makes copper clad laminates (CCLS) which are a base material in printed circuit boards (PCBs). One of the company's factories, located in Kunshan in China, was affected by lockdowns which led to weak operations in April. However Elite did not see any customers cut back on orders since supply in the industry is tight compared to demand. The company still thinks second quarter revenue is to at least be flat on a quarter-on-quarter basis and may even grow by single digits. Infrastructure demand, which means demands from servers and switches, continues to grow strongly as both Intel and AMD server demand remains strong. Intel is launching its new Eagle Stream platform later this year which will contain more layers of circuitry, leading to greater demand for Elite's products. On consumer demand, Elite says smartphone demand is weak but more higher end notebooks and tablets are upgrading their PCBs which is positive for Elite. Despite the weak share price performance, we remain confident in the business's future.

China Resources Gas is a gas distributor focusing on urban areas, targeting both residential and commercial customers. At the start of the year gas prices had been generally increasing and following Russia's invasion of Ukraine, spiked up further. Though in theory gas distributors can pass on these higher costs, there is a possibility they are asked to conduct 'national service'. This could mean absorbing some of the higher costs, rather than passing them onto small and medium enterprises (SMEs) and residential customers. Given the weak economy, we felt there was a non-trivial probability of this occurring, and so sold the stock.

Venustech is a provider of cybersecurity services in China. Lockdowns have led to delays in government projects, which was also the case in 2020. Therefore, earnings estimates for the company have come down along with a 15% derating in the valuation multiple. By April the stock was trading on a P/E ratio of 12.8x, its lowest level ever. Perhaps taking advantage of the cheap price, China Mobile Capital, a subsidiary of China Mobile, acquired a 23% equity and voting stake in the business. Venustech's founders' equity stake will fall to 21.7% but their voting power will fall to 13.1%. China Mobile will be able to appoint four seats out of a total of six available on the board, meaning it will control the company's strategy. Given the national importance of cybersecurity, the state has been taking stakes in cybersecurity companies and the investment in Venustech is a continuation of this trend. On the positive side, Venustech will gain more access to a very large client in the form of China Mobile. The founders are staying and if they want to reduce their stakes in the business, they will have to meet certain financial goals. On the other hand, we question whether Venustech will retain the same competitive edge which made it attractive to us in the first place. The valuation of the stock remains undemanding and to some extent, may compensate for this risk.

H&T Intelligent makes controllers used in household appliances and power tools, which convert user input into the output of the product. H&T's controllers are used in well-known brands such as Whirlpool, Siemens and Bosch. The business has grown rapidly over the years and so the stock is one of the more expensive stocks in the portfolio on a multiple basis. Given the slowdown in both the domestic and Chinese economy, revenue in the first quarter fell 3% and net income fell 34%. The P/E ratio has fallen 30.0x at the beginning of the year to 24.7x by June.

CHANGES TO THE PORTFOLIO

In the first half of the year, we sold three positions and bought three positions.

Sells

As mentioned, we sold China Resources Gas and Novatek Microelectronics. We sold China Resources Gas due to the risk that company's margins could fall due to 'national service'. We sold Novatek Microelectronics due to a combination of no expected earnings growth and lack of catalysts to increase the valuation multiple.

We are in the process of selling another position which will be disclosed when complete.

Buys

We bought Shenzhou International, a textile and apparel maker, after the stock sold off on a profit warning. Due to Covid-related suspension of production sites across Cambodia and Vietnam, costs increased and revenues fell in the second half of 2021. We do not think these conditions are likely to last for the next three years. The risk reward ratio for the stock became much more attractive and so we bought the stock.

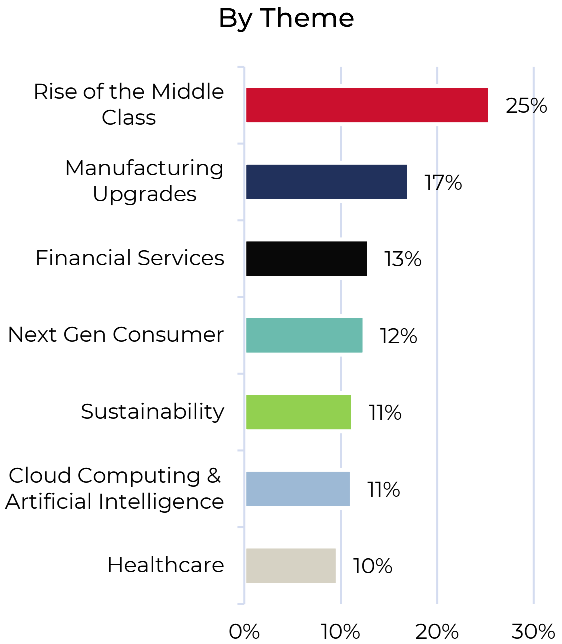
Following the sell-off in the middle of March, we bought Shenzhen Inovance Technology and Hong Kong Exchanges and Clearing. We felt that many quality stocks were selling off regardless of their fundamentals, and so we were assessing the ideas on our watchlist. The two additions made had been expensive for a very long time but within a few days presented an acceptable upside for the amount of risk taken.

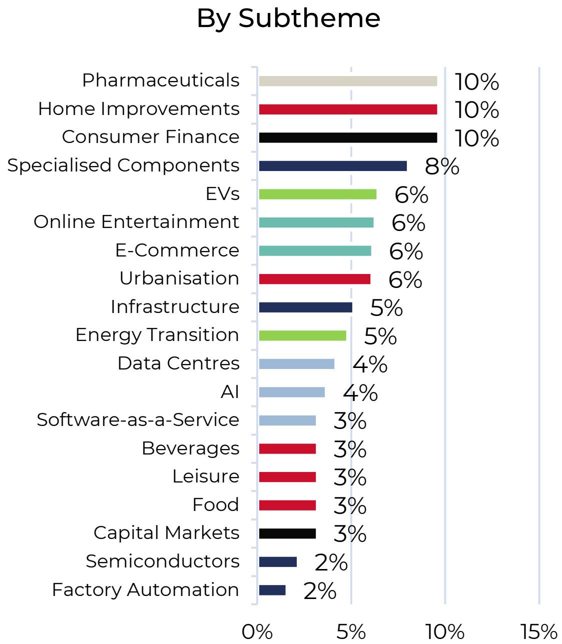
Inovance is a manufacturer of industrial automation equipment. It started off making inverters (frequency converters) for industrial equipment and elevators, before successfully expanding into servos (error-sensing devices) and automation equipment. Inovance is now one of the top five firms in the inverter and servo market in China, when measured by revenue. The business gives exposure to various traditional industrial markets as well as newer markets such as electric vehicles (EVs) and solar panels. Inovance has a quickly growing EV controller business which may become profitable in 2022, and we expect this to become a further growth driver for the business.

Hong Kong Exchanges & Clearing (HKEX) is a high-quality stock which is often expensive. As we are clearly bullish on the demand for Chinese stocks over time, we expect the exchange, which facilitates the trade of Chinese stocks, to also do well. The exchange benefits through the Stock Connect scheme which allows foreigners to buy domestic A-shares. The ETF Connect was approved in June which allows mainland investors to buy HKD-denominated ETFs in Hong Kong – a further positive step for HKEX.

POSITIONING

By theme, the Fund's largest exposure is to the Rise of the Middle Class, followed by Manufacturing Upgrades. Important subthemes include Pharmaceuticals, Home Improvements, Consumer Finance and Specialised Components.

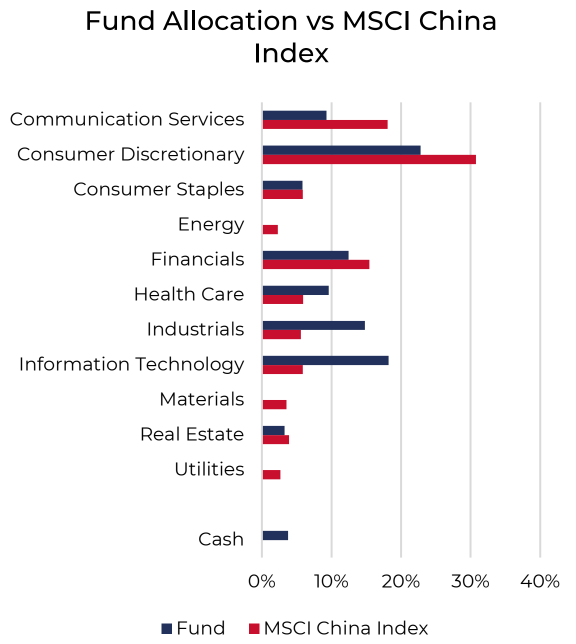


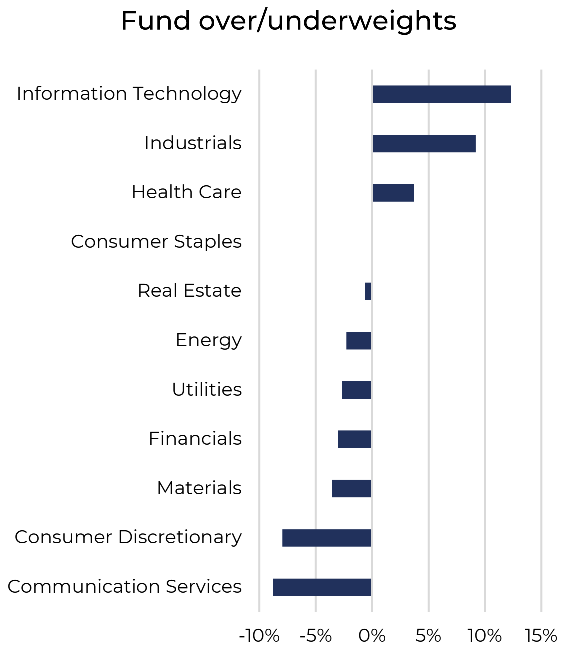


(Data as of 30/06/22, source: Guinness Global Investors calculations)

On a sector basis, the Fund's largest exposures are to Consumer Discretionary, Information Technology (IT), and Industrials. Relative to the MSCI China Index, the Fund is overweight in IT and Industrials. The Fund is underweight in the Communication Services and Consumer Discretionary sectors. On the surface, the Fund's IT weight is high, but within this group of companies there are completely different businesses whose operations are unrelated. Based on the classifications below, we believe our IT holdings are well diversified.

- Cybersecurity – Venustech, one of China's largest providers of cybersecurity services.
- Solar power – Xinyi Solar, world's largest supplier of glass used in solar panels.
- Semiconductors – TSMC, which is the world's largest foundry business.
- Copper clad laminates (CCLs) – Elite Material and Shengyi Technology, exposure to smartphones and servers.
- Controllers and IoT – H&T Intelligent, exposure to household appliances and power tools.

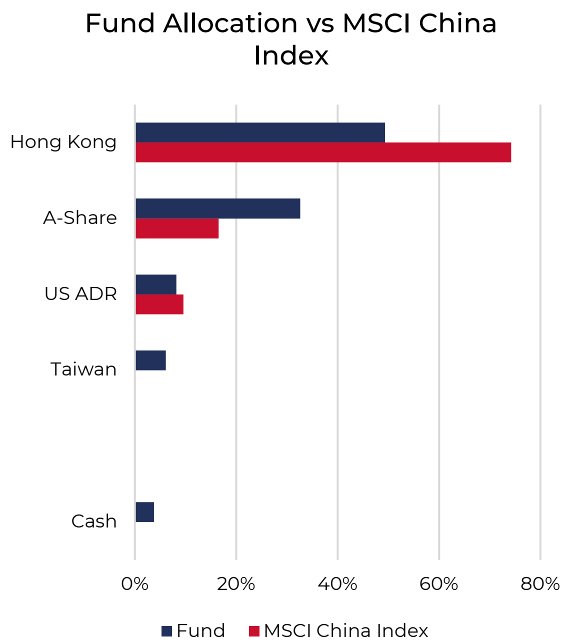


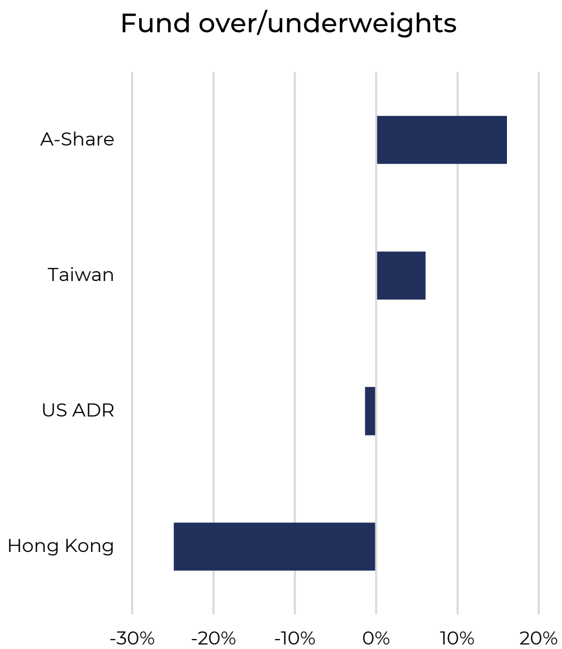


(Data as of 30/06/22, source: Bloomberg, Guinness Global Investors calculations)

On a listing basis, the Fund has 49% exposure to stocks listed in Hong Kong, 33% exposure to the A-share market, 8% in China ADRs trading in the US, and a 6% allocation to Taiwan. We ultimately care about total shareholder return and so are giving ourselves the option of allocating to Taiwan. Occasionally, valuations in China can become very stretched and so for the companies which meet either of the next two criteria, having the option to invest at better valuations is attractive:

1. Taiwanese companies with significant exposure to China. We define this as more than 50% of sales from China or more than 50% of assets in China.
2. Taiwanese companies in the semiconductor chain. While there are semiconductor companies in China, often the quality or the price of the companies can be unattractive. Meanwhile in Taiwan there are many good quality, growing businesses trading at more reasonable prices.





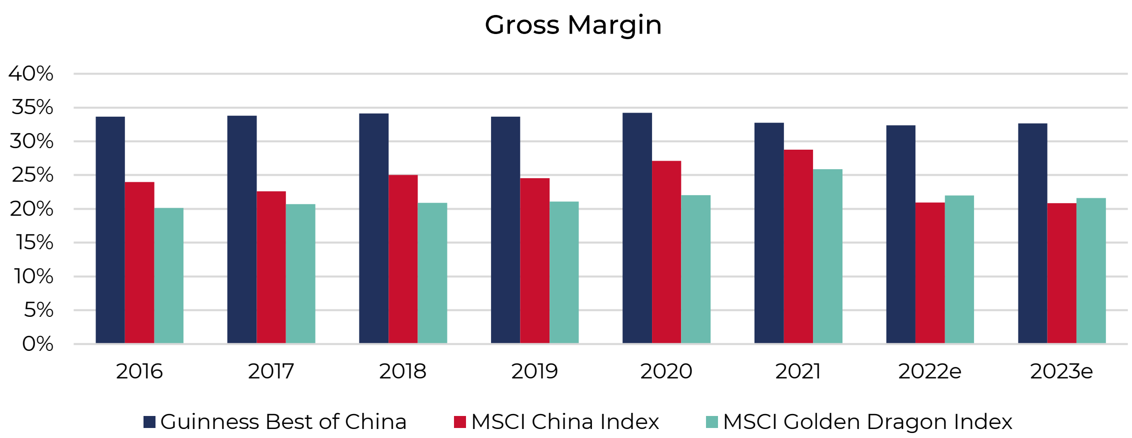
(Data as of 30/06/22, source: Bloomberg, Guinness Global Investors calculations)

OUTLOOK

Currently, global investors' appetite for Chinese stocks is low, one of the reasons for which is China's zero-Covid policy and its impact on the economy. We believe that China is still following this policy because of the low take-up of vaccinations and booster shots by the elderly. Given this age group is the most vulnerable to Covid, this is a problem. In Beijing, local authorities briefly introduced a vaccine mandate, only allowing the vaccinated to enter many public venues. However in response to public backlash, the mandate was cancelled after only two days. This highlights the reservations the public have with the domestic vaccines and the difficulty facing the government. A successful domestic mRNA vaccine may lead China to move away from zero-Covid. China is developing its own mRNA vaccines and results of several vaccine trials are expected to come through in the second half of 2022.

We think that China remains an attractive investment destination if investors take a medium to long-term view. On a purchasing power basis, China is the largest economy in the world, yet its equity markets remain smaller than that of the US. We expect that over time, China's economy is to continue growing, increasing the potential sales for Chinese companies. We have invested in a set of companies which give exposure to interesting structural growth opportunities. These are well run companies which have demonstrated they can convert revenues into earnings and cash for their investors. These companies make good capital allocation decisions as evidenced by their high return on capital.

We believe our companies also have good pricing power as shown by their higher and more stable gross margins. A stable gross margin, in our view, indicates companies can pass on higher costs onto consumers. Over the past five years, the Fund has had a higher gross margin than the MSCI China Index. Based on consensus analyst expectations, the Fund's margin is expected to hold up in 2022 while that of the China index is expected to fall significantly. This ability to pass on some of the inflationary pressures is important in the current environment.



Source: MSCI, Guinness calculations. Data as of 30/06/2022. Holdings for the Fund exclude the position which we are in the process of exiting. Data for Guinness Best of China is a simulation based on actual historic data for the Fund's current holdings. The Fund was launched on 15.12.2015. Index data uses historic holdings as of the end of each year.

We believe the tightening of monetary policy in developed markets is likely to lead to a valuation derating for stocks in these markets. China is moving in the opposite direction with counter cyclical support measures which developed economies would like, but with runaway inflation are not able to provide. These take the form of monetary loosening and policy support designed to reaccelerate growth and boost consumer confidence. Lower stock market valuations today and forecast consensus earnings growth of 16% in 2023 and 14% in 2024 make China an interesting investment opportunity at this point, in our opinion.

Portfolio Managers

Edmund Harriss

Sharukh Malik

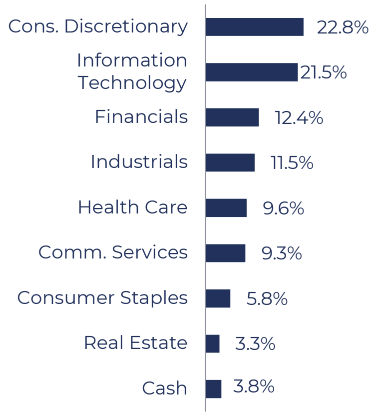
PORTFOLIO

Fund top 10 holdings

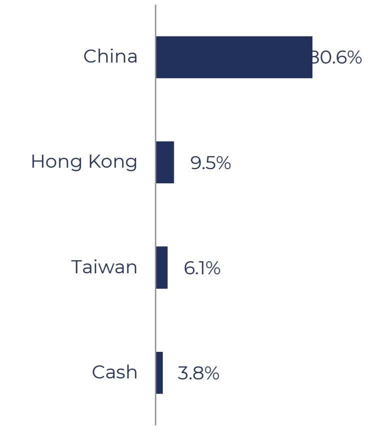
Geely Automobile Holdings	3.4%
Sino Biopharmaceutical	3.4%
Suofeiya Home Collection	3.3%
Wuxi Lead Intelligent Equipment	3.3%
China Merchants Bank	3.3%
SHENZHEN H&T INTELLIGENT-A	3.3%
China Overseas Land	3.3%
Shenzhou International	3.2%
CSPC Pharmaceutical Group Ltd	3.2%
Xinyi Solar	3.2%

% of Fund in top 10	33.0%
Total number of stocks	32

Sector analysis



Geographic allocation



PERFORMANCE

Past performance does not predict future returns **30/06/2022**

Annualised % total return from launch (GBP)

Discrete years % total return (GBP)	Jun '22	Jun '21	Jun '20	Jun '19	Jun '18	Jun '17
Fund (Y Class, 0.89% OCF)	-7.1	23.3	7.4	-5.7	10.3	40.3
MSCI Golden Dragon Index	-17.2	21.6	13.2	1.7	12.6	34.4
IA China/Greater China sector average	-17.0	22.4	18.7	-1.7	17.3	34.8

Cumulative % total return (GBP)	YTD	1 Yr	3 Yrs	5 Yrs	Launch
Fund (Y Class, 0.89% OCF)	-1.8	-7.1	23.0	28.0	94.7
MSCI Golden Dragon Index	-4.5	-17.2	14.0	30.6	102.0
IA China/Greater China sector average	-3.9	-17.0	20.5	39.0	102.0

RISK ANALYSIS **30/06/2022**

Annualised, weekly, from launch on 15.12.15, in GBP	Index	Sector	Fund
Alpha	0.00	0.05	0.06
Beta	1.00	0.99	0.97
Information ratio	0.00	-0.04	-0.06
Maximum drawdown	-30.24	-37.41	-28.06
R squared	1.00	0.92	0.85
Sharpe ratio	0.42	0.38	0.36
Tracking error	0.00	5.25	7.40
Volatility	17.98	18.50	19.00

Fund returns are for share classes with a current Ongoing Charges Figure (OCF) stated above; returns for share classes with a different OCF will vary accordingly. Source: FE fundinfo bid to bid, total return (0.89% OCF). Fund launch date: 15.12.2015.

IMPORTANT INFORMATION

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

This report is primarily designed to inform you about Guinness Best of China Fund. It may provide information about the Fund's portfolio, including recent activity and performance. It contains facts relating to the equity markets and our own interpretation. Any investment decision should take account of the subjectivity of the comments contained in the report.

This document is provided for information only and all the information contained in it is believed to be reliable but may be inaccurate or incomplete; any opinions stated are honestly held at the time of writing, but are not guaranteed. The contents of the document should not therefore be relied upon. It should not be taken as a recommendation to make an investment in the Fund or to buy or sell individual securities, nor does it constitute an offer for sale.

Risk
The Guinness Best of China 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. Details on the risk factors are included in the Fund's documentation, available on our website. Shareholders should note that all or part of the fees and expenses will be charged to the capital of the Fund. This will have the effect of lowering the capital value of your investment.

Documentation
The documentation needed to make an investment, including the Prospectus, the Key Investor Information Document (KIID) and the Application Form, is available in English from www.guinnessgi.com or free of charge from:-

- the Manager: Link Fund Manager Solutions (Ireland) Ltd (LFMSI), 2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland; or,the Promoter and Investment Manager: Guinness Asset Management Ltd, 18 Smith Square, London SW1P 3HZ.

LFMSI, as UCITS Man Co, has the right to terminate the arrangements made for the marketing of funds in accordance with the UCITS Directive.

Investor Rights
A summary of investor rights in English is available here:https://www.linkgroup.eu/policy-statements/irish-management-company/

Residency
In countries where the Fund is not registered for sale or in any other circumstances where its distribution is not authorised or is unlawful, the Fund should not be distributed to resident Retail Clients. **NOTE: THIS INVESTMENT IS NOT FOR SALE TO U.S. PERSONS.**

Structure & regulation
The Fund is a sub-fund of Guinness Asset Management Funds PLC (the "Company"), an open-ended umbrella-type investment company, incorporated in Ireland and authorised and supervised by the Central Bank of Ireland, which operates under EU legislation. If you are in any doubt about the suitability of investing in this Fund, please consult your investment or other professional adviser.

Switzerland
This is an advertising document. The prospectus and KIID 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.