Guinness Best of China Fund

Investment Commentary - December 2022

GUINNESS GLOBAL INVESTORS

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

30/11/2022	1 year	3 years	5 years	Launch*
Fund (%)	-15.6	4.3	-0.5	68.7
Index (%)	-16.2	2.6	7.4	82.1
Sector (%)	-21.7	1.1	3.9	70.3

Discrete 12m performance is shown at the end of this commentary. Source: FE fundinfo, bid to bid, total return in GBP. *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.

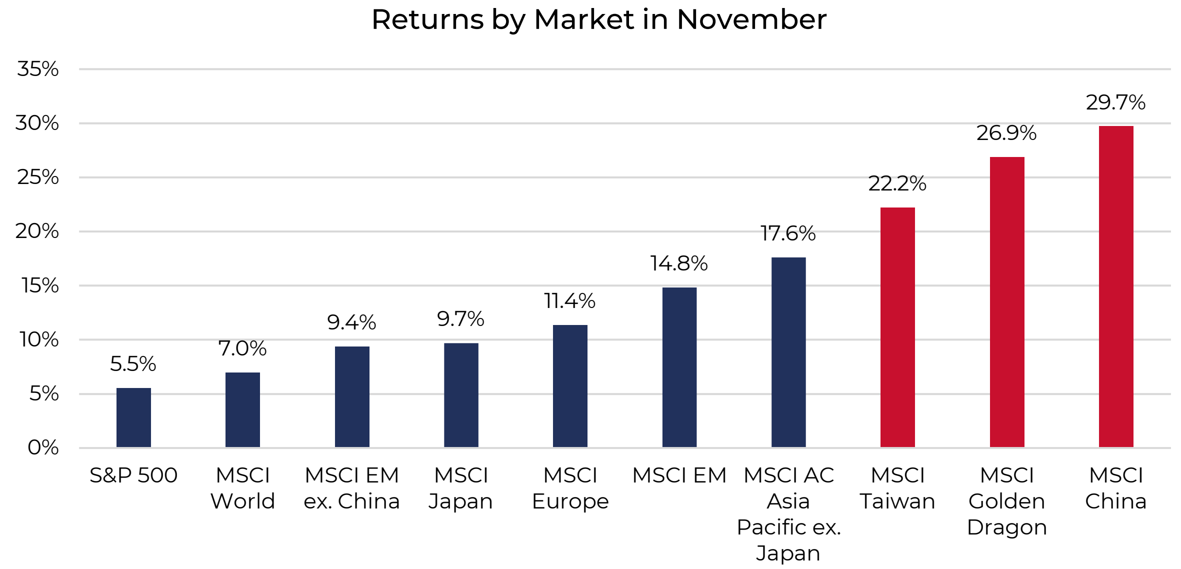
SUMMARY

In November the Guinness Best of China Fund (Y class, GBP) rose 19.5% while the benchmark, the MSCI Golden Dragon Net Total Return Index, rose 22.4%, and the MSCI China Net Total Return Index rose 24.1%.

Fund underperformance was mainly driven by the underweight in the tech giants (Tencent, Alibaba, Meituan and Pinduoduo), which outperformed. This meant a 33.9% (USD) rally for the Hang Seng Tech Index and a 28.3% rally in the Hang Seng Composite Index. Meanwhile, the A-share market was relatively subdued, rising 13.1% (USD). Relative to the MSCI China Index, the Fund has a 20% overweight to the A-share market and this was a drag on performance. As China gradually moves away from zero-Covid, we expect more mainland enthusiasm for A-shares, along with greater foreign demand, which should benefit the Fund's overweight to the market.

The strongest stocks in the portfolio were JD.com, Ping An Insurance and China Merchants Bank. The weakest were Wuxi Lead Intelligent Equipment, Hangzhou First Applied Material and Shenzhen H&T Intelligent.

MARKET COMMENTARY



(Data from 31/10/22 to 30/11/22, returns in USD, source: Bloomberg, Guinness Global Investors calculations)

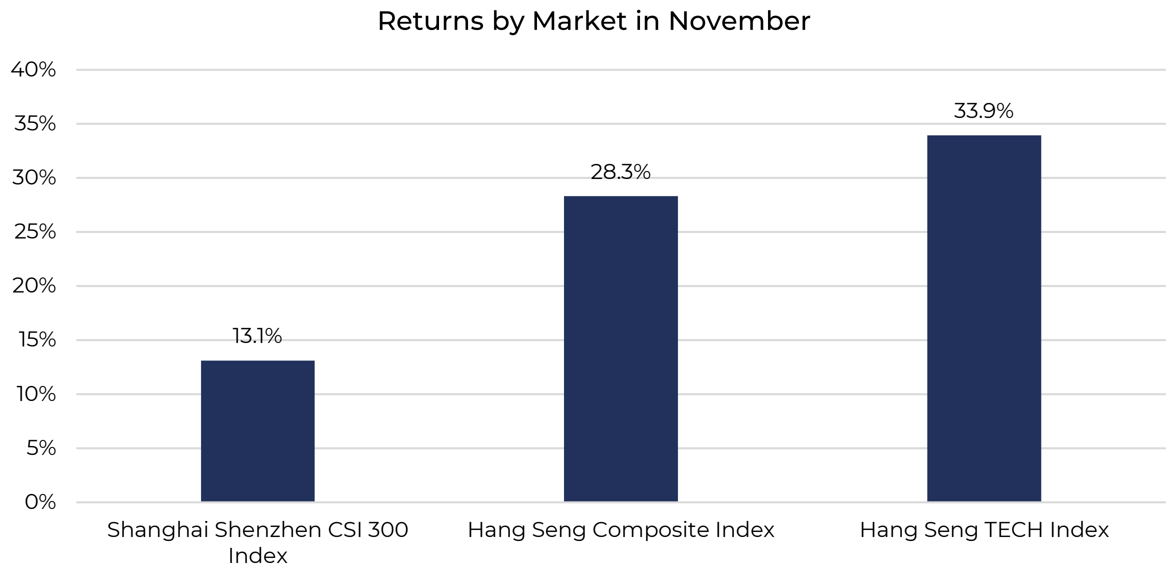
Chinese markets were strong in November, with the MSCI China Index rising 29.7%, compared to the MSCI World Index which rose 7.0%. It was a volatile month, with Chinese markets initially rallying in the first two weeks of the month, giving back some of the gains the following week, and then rallying at the end of the month.

Following the political events in October, we saw significant changes in China's Covid and real estate policies. On the Covid front, the number of days required for centralised quarantine was cut from seven days to five days. The classification of risk districts was simplified into just high and low-risk districts, eliminating mid-risk districts. The number of days required for a district to move from high to low risk was cut by five days, meaning to be classified as low-risk, a district only needed no new cases over five consecutive days. Furthermore, close contacts of people testing positive for Covid were to be no longer identified, significantly reducing the pressure on quarantine facilities. Some areas dropped the requirement to have a negative PCR test 48 hours before long-distance journeys. The People's Daily, a government-run newspaper, for the first time played down the long-term impact of Covid on health outcomes. Therefore, following the weakness of Chinese markets in October, they rallied sharply on the relaxation of Covid policy.

However, as the easing was announced, Covid cases increased sharply, surpassing the peak seen in spring when Shanghai locked down. In response, many cities and towns introduced lockdowns and movement restrictions as local government officials ignored the new rules issued by central government. Chinese markets sold off moderately on the lockdowns in the middle of the month.

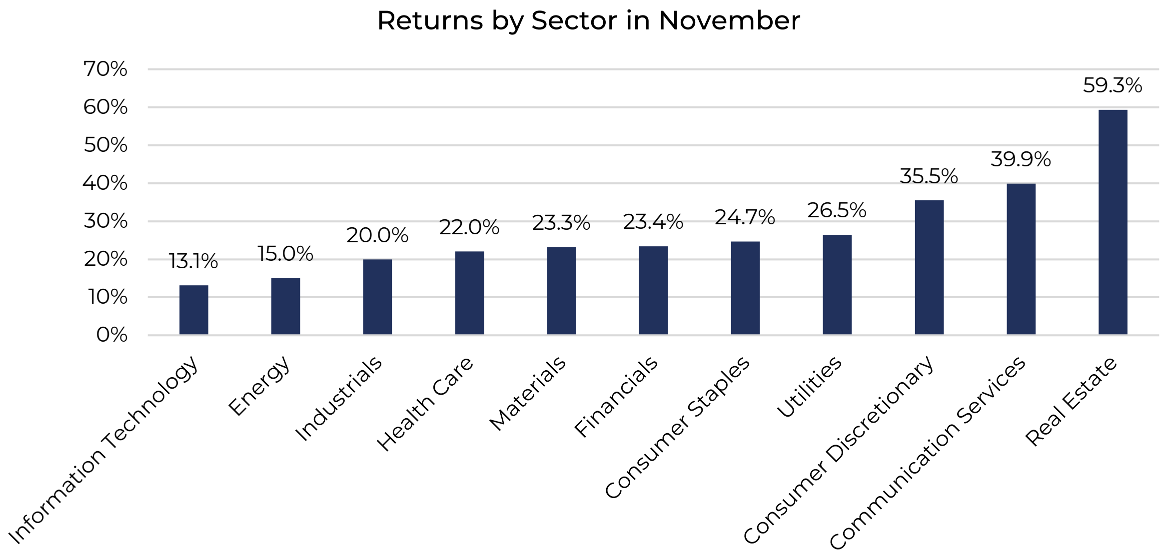
In a surprising turn of events, protests over lockdowns and movement restrictions spontaneously erupted in multiple cities across China. This demonstrated the frustration of much of the population over the continuous cycle of lockdowns and movement restrictions. In our opinion, the level of discontent surprised the government and certainly increased the cost of maintaining the status quo.

Soon after the protests there was a clear relaxation in Covid restrictions. Despite the high level of cases, cities such as Shenzhen and Tianjin no longer required PCR tests to use public transport. Some cities dropped the requirement to enter certain public spaces. Some people were allowed to quarantine at home, as opposed to quarantining at a centralised facility. Reports indicated the government was again aiming to get the elderly to either get their first Covid vaccine or to get their booster shot. Consequently, Chinese markets rallied sharply at the end of the month.



(Data from 31/10/22 to 30/11/22, returns in USD, source: Bloomberg, Guinness Global Investors calculations)

In November the rally was led by foreigners buying popular offshore-listed technology stocks. The Hang Seng Tech Index rose 33.9% in November. More generally, offshore markets were stronger than onshore markets, as the Hang Seng Composite Index rallied 28.3%. Meanwhile, onshore investors in the mainland were less bullish, perhaps as many were still subject to some form of movement restrictions. The Shanghai Shenzhen CSI 300 Index rose by only 13.1% in November.



(Data from 31/10/22 to 30/11/22, returns in USD, source: Bloomberg, Guinness Global Investors calculations)

Although in October the Real Estate sector was weakest, in November it was by far the strongest, rising 59.3%. After the political events concluded in October, the government also announced a raft of policies designed to boost the property sector. More loans from the state-owned banks were extended to property developers to ensure work continues on existing projects. Private developers, which are struggling compared to their state-owned counterparts, are to receive equal treatment in stimulus measures. Loans can be rolled over for a year where the loan is maturing within six months, which the banks will not have to immediately classify as non-performing. These policies were well received by the market, but we believe that one of the strongest sources of stimulus is China moving away from its zero-Covid policy. This is likely to boost consumer confidence and demand, allowing consumers to spend the savings they have accumulated over the past year.

PORTFOLIO PERFORMANCE

In November the Guinness Best of China Fund (Y class, GBP) rose 19.5% while the benchmark, the MSCI Golden Dragon Index rose 22.4%, and the MSCI China Index rose 24.1%.

Sources of underperformance included the following:

Underweight in the tech giants: Tencent, Alibaba and Meituan (Meituan is not held in the Fund). While this underweight helped the Fund's relative performance in the October sell-off, it worked against the Fund in November as foreigner investors bought these popular stocks. The Fund is run on an equally weighted basis and so each position has a neutral weight of c.3.2%. As of 30/11/22, Tencent, Alibaba and Meituan accounted for 11.9%, 8.0% and 4.8% of the MSCI China Index. As these names were outperformers, the Fund captured significantly less of the upside through the underweight position.

Underweight in Hong Kong listed stocks/overweight in the A-share market: the offshore market was strongest as foreign demand for Chinese stocks was high. Foreign investors bid up the share prices of the popular tech stocks, meaning the Hang Seng Tech Index rose 33.9% in USD. As of 30/09/22, the Fund had 46% invested in HK-listed stocks compared to 73% for the MSCI China Index. The mainland market was more subdued as perhaps many mainland investors were still subject to movement restrictions and were less bullish than foreign investors. The Shanghai Shenzhen CSI 300 Index rose by only 13.1% (in USD) in November. As of 30/09/22, the Fund was c.38% invested in the A-share market, 20% higher than the MSCI China Index, so had more exposure to subdued activity in this market. We believe that once China makes significant steps away from its zero-Covid policy, mainland investors' demand for China A-shares is likely to pick up. Additionally, foreign interest in the market is likely to follow. This may benefit the Fund's significant overweight in the market.

OUTLOOK

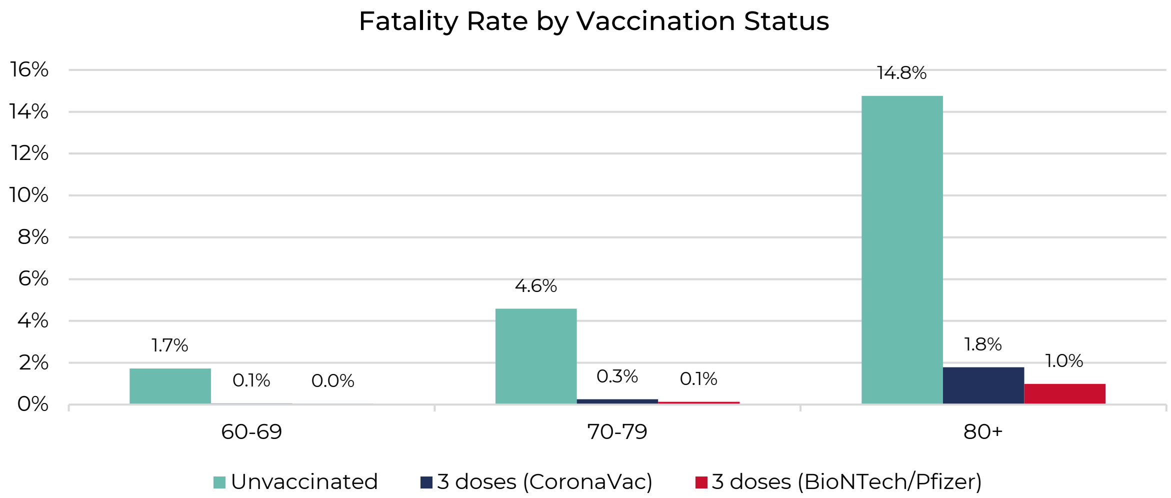
In early December, we have seen the central government further relax its zero-Covid policy. Subject to certain conditions, anyone who is asymptomatic or has mild symptoms can now quarantine at home, instead of having to quarantine in government-run buildings. Close contacts of people with Covid can also choose to quarantine at home. In many cases, PCR tests are not required to enter most public places. Lockdowns and movement restrictions now also have to be much more granular; for example, rather than locking down a whole area, local governments can lock down a particular building or even a particular floor in a building.

The news is positive for markets, but we exercise caution as the path forward is likely to be volatile. As China relaxes policies, Covid cases are very likely to increase. Given that a record number of cases was just reached before China significantly eased its lockdown policies, we are in uncharted territory from this perspective. It is likely that if the strain on the medical infrastructure becomes too high, movement restrictions may be tightened again to reduce pressure on the system. So while the direction of travel is positive, there may be periods where Covid policy is loosened, followed by periods of restrictions to manage the number of cases. We stress that this is a sensible policy for the Chinese to follow and is no different to what we saw in the UK when restrictions were eased.

A key data point to watch is the vaccination rate of the elderly. Too few of the elderly are vaccinated and not enough have taken their booster shot. We estimate that about 15% of those aged 60 and over have not received the vaccine and about one third of them have not received the booster. Since the elderly have worse Covid outcomes, it is vital for them to get vaccinated.

The issue then is convincing the elderly to get do so. Reasons for not getting vaccinated are numerous – there is no one dominant reason. They include a preference for traditional Chinese medicine, which is cultural factor. There is some distrust as to the effectiveness of the domestic vaccines, given the relative weaker transparency in trials. In healthcare, general practitioners (GPs) do not provide vaccination services and have no incentive to promote vaccination rates. Lack of knowledge by those running vaccination clinics means that some elderly patients are advised not to get vaccinated, because of the incorrect belief that the side effects of the vaccine are greater than the benefits. These headwinds need to be overcome if China is to eventually drop all Covid restrictions. Since the costs of sticking with the status quo have significantly increased following the protests, the government has a greater incentive to succeed.

We also point out that the type of vaccine used is not that important; it is more important to get the elderly vaccinated with any vaccine, than it is for the Chinese to develop their own mRNA vaccine. Though the Chinese vaccines are not as effective as the foreign mRNA vaccines, we believe they are more than good enough in preventing significant fatalities for the elderly group. Below we show data from Hong Kong, where the population can get a Chinese vaccine based on an inactivated virus (CoronaVac) or a foreign mRNA vaccine (Pfizer). The chart looks at the fatality rate by vaccination status for each age group (number of fatalities in each category for someone who tested positive for Covid). If we look at the 80+ group, the fatality rate for the unvaccinated is 14.8%. Getting three doses of the Chinese vaccine reduces the fatality rate significantly to 1.8%. Getting the BioNTech/Pfizer vaccine reduces the rate further to 1.0%. So while the Chinese vaccines are not as effective as foreign mRNA, they are more than good enough in cutting down fatalities, for those who are currently unvaccinated.



Data from 31/12/21 to 16/11/2022. Source: The Government of the Hong Kong SAR, Guinness calculations. "COVID-19 death case is defined as a death in a person with positive SARS-CoV-2 result and died within 28 days of the first positive specimen collection day. The underlying cause of death may have been unrelated to COVID-19."

Portfolio Managers

Edmund Harriss

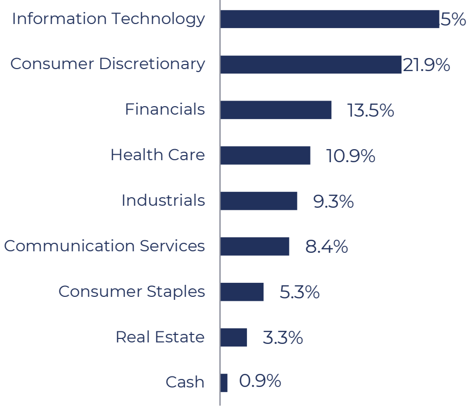
Sharukh Malik

PORTFOLIO

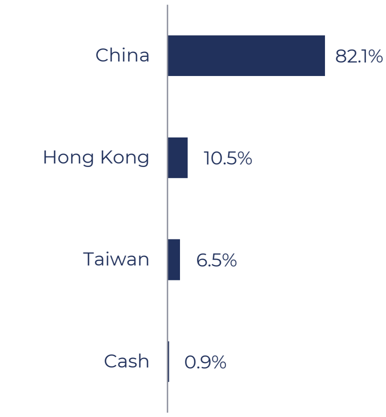
Fund top 10 holdings

Venustech Group	4.7%
CSPC Pharmaceutical Group Ltd	3.9%
Sino Biopharmaceutical	3.8%
China Merchants Bank	3.6%
AIA Group Ltd	3.4%
Xinyi Solar	3.4%
Shenzhen Inovance Technology	3.4%
Elite Material	3.3%
Haier Smart Home	3.3%
JD.com	3.3%
% of Fund in top 10	36.1%
Total number of stocks	31

Sector analysis



Geographic allocation



PERFORMANCE

Past performance does not predict future returns **30/11/2022**

Annualised % total return from launch (GBP)

Fund (Y Class, 0.89% OCF)
MSCI Golden Dragon Index
IA China/Greater China sector average

Discrete 12m % total return (GBP)	Nov '22	Nov '21	Nov '20	Nov '19	Nov '18	Nov '17
Fund (Y Class, 0.89% OCF)	-15.6	7.7	14.7	10.1	-13.3	31.2
MSCI Golden Dragon Index	-16.2	-4.1	27.5	9.2	-4.1	25.2
IA China/Greater China sector average	-21.7	-3.7	34.0	11.4	-7.7	27.8

Cumulative % total return (GBP)	YTD	1 Yr	3 Yrs	5 Yrs	Launch
Fund (Y Class, 0.89% OCF)	-15.0	-15.6	4.3	-0.5	68.7
MSCI Golden Dragon Index	-13.9	-16.2	2.6	7.4	82.1
IA China/Greater China sector average	-19.0	-21.7	1.1	3.9	70.3

RISK ANALYSIS **30/11/2022**

Annualised, weekly, from launch on 15.12.15, in GBP	Index	Sector	Fund
Alpha	0.00	-0.82	-0.51
Beta	1.00	0.98	0.97
Information ratio	0.00	-0.19	-0.13
Maximum drawdown	-43.83	-46.93	-39.02
R squared	1.00	0.92	0.86
Sharpe ratio	0.23	0.15	0.15
Tracking error	0.00	5.63	7.48
Volatility	18.92	19.43	19.78

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.