Guinness Best of China Fund

Investment Commentary - September 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

31/08/2022	1 year	3 years	5 years	Launch*
Fund	-8.2	14.6	8.4	80.3
Index	-11.4	12.2	15.7	97.6
Sector	-12.5	12.2	18.5	89.9

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 August, the Guinness Best of China Fund rose 1.2% while the benchmark, the MSCI Golden Dragon Net Total Return Index (MSCI Golden Dragon Index) rose 3.9%, and the MSCI China Net Total Return Index (MSCI China Index) rose 4.9% (in GBP).

The Fund's underperformance came at the end of August, as a likely short squeeze led to a rally in the large tech stocks that the Fund is underweight in. Poor performance in the A-share market, where the Fund is overweight, also contributed.

The People's Bank of China (PBOC) loosened monetary policy in August. It cut short-term interest rates (the seven-day open market operations (OMO) rate) by 0.1%. It also cut the Medium Lending Facility (MLF) rate, which is the rate at which banks borrow from the central bank, by 0.1%. The 5-year Loan Prime Rate (LPR), which is used primarily to price mortgages, was cut by 0.15% to 4.30%. The cut in the LPR is designed to support the weak housing market, where sales are down 30-40%.

In Sichuan province a record heatwave led to rivers and dams drying up, meaning hydropower could not generate enough energy. At the same time the demand for air conditioning significantly increased, placing strain on the electricity grid in the province. The local government initiated power cuts which led to companies stopping production for a week.

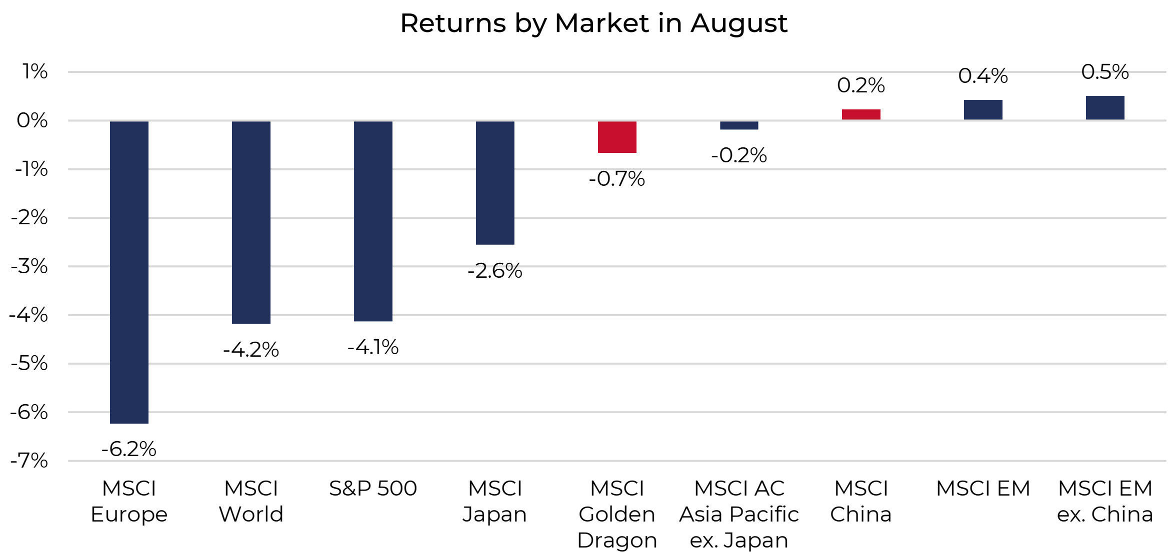
Rising Covid cases led to lockdowns in Tibet, Sichuan and Shenzhen. As the Party is going to hold its five-year congress meeting in October, where Xi will be formally re-elected as leader of the party, a stable political situation is the aim. It is imperative that there are no major outbreaks until the meeting and so lockdowns and movement restrictions are likely to be more vigorously implemented in the next two months.

The US now requires American chipmakers to obtain a special licence to sell high-end AI chips to China. This affects Nvidia, whose shares were down 8% on the day the rule was announced. The US justification revolved around the potential military use of such chips but there are also non-military applications including data centres and high-performance computing.

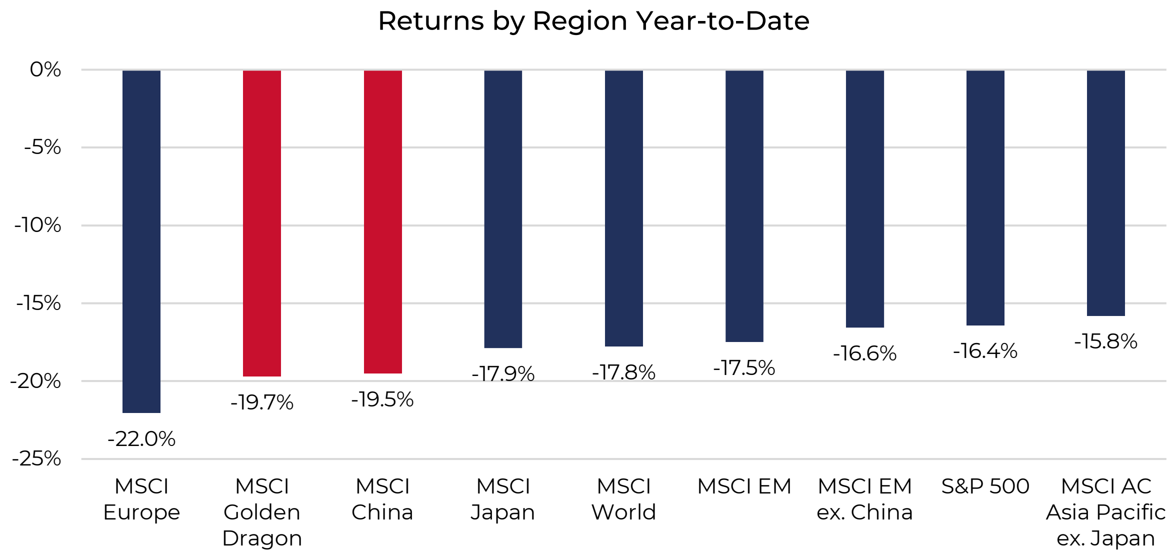
The US and China reached a deal to let the US regulator, the Public Company Accounting Oversight Board (PCAOB), inspect the audit work of Chinese companies listed on American exchanges. It is currently not completely clear how the process will work but the PCAOB will look at audits of selected Chinese companies in Hong Kong. Reports indicate that Fund holdings Alibaba, JD.com, Baidu and Netease will be asked to take part in these audit inspections.

Rising interest rates in the US and a weak domestic Chinese economy led to some weakness in the renminbi. The PBOC set the fixing rate for the currency at a higher level (against the dollar) than the average estimate, implying policymakers want to reduce the pressure on the renminbi. The PBOC also reduced the foreign exchange reserve requirement ratio by 2% to 6%, meaning banks can sell some of their dollars and buy more renminbi, boosting demand for the currency.

MARKET COMMENTARY



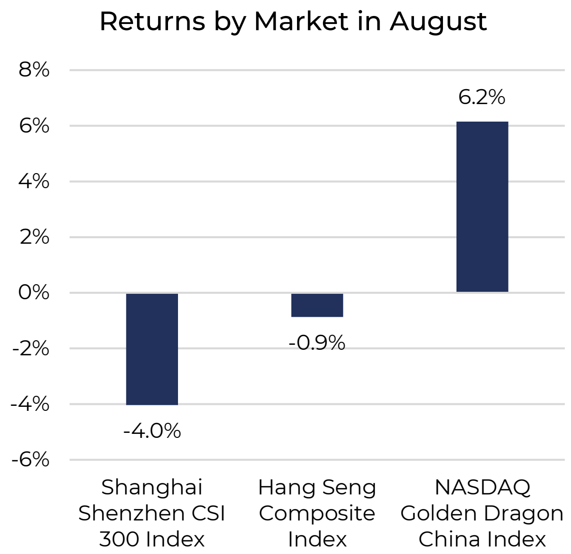
(Data from 31/07/22 to 31/08/22, returns in USD, source: Bloomberg, Guinness Global Investors calculations)



(Data from 31/12/21 to 31/08/22, returns in USD, source: Bloomberg, Guinness Global Investors calculations)

Guinness Best of China Fund

Chinese markets rose by 0.2% (in USD) in August which made them outperformers relative to other major markets. The S&P 500 fell by 4.1% while MSCI Europe fell by 6.2%. Year-to-date, MSCI China has fallen by 19.5% compared to a 22.0% fall for MSCI Europe and a 16.4% fall for the S&P 500.

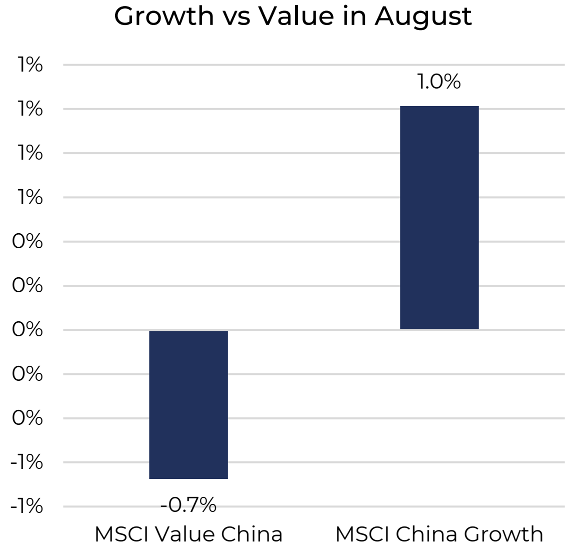


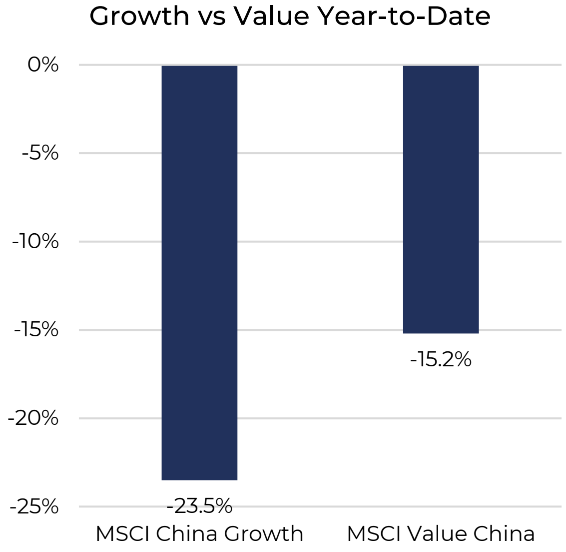
(Left chart: data from 31/07/22 to 31/08/22. Right chart: Data from 31/12/21 to 31/08/22, returns in USD, source: Bloomberg, Guinness Global Investors calculations)

In August, the A-share market was weakest as the CSI 300 Index fell 4.0%. Meanwhile, offshore markets were better performers as the Hang Seng Composite Index fell 0.9%. The NASDAQ Golden Dragon China Index, which tracks Chinese companies listed in the US, rose 6.2%. This was driven by the strong performance of the tech stocks which rebounded at the end of the month. Positive news related to China stimulus and the deal on audits of Chinese companies, likely led to short covering (buying stocks to cover short sales) but with no significant increase in liquidity. On the day of the positive announcements, Tencent, Alibaba, Meituan and Pinduoduo were up strongly.

In August, thanks to sterling depreciation the Fund rose 1.2% in GBP while the MSCI China Index rose 4.9%. The Fund's underperformance came at the end of the month when the large tech stocks rallied and the A-share market was weak. In this period, sources of underperformance were:

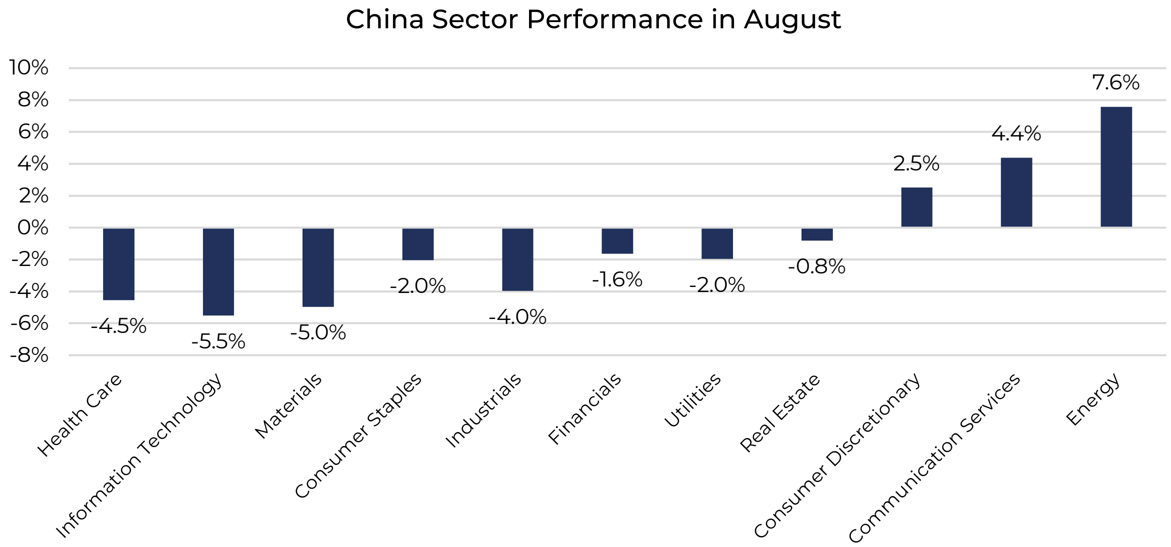
- Underweight in Pinduoduo and Meituan (neither held), and Tencent and Alibaba (not held). We do not own Pinduoduo or Meituan because of their poor history of converting growth to cash earnings. We do hold Tencent and Alibaba but because the Fund is equally weighted, we hold about c.3.2% in each stock. Therefore we are underweight in both stocks which account for 12% and 10% of the MSCI China Index respectively. When the two stocks do very well, the Fund will not capture as much of the upside as the benchmark. But when the two stocks do poorly, as they did in 2021, the Fund captures much less of the downside.
- Weakness in A-share holdings H&T Intelligent, Lead Intelligent and Shengyi Technology.





(Left chart: data from 31/07/22 to 31/08/22. Right chart: Data from 31/12/21 to 31/08/22, returns in USD, source: Bloomberg, Guinness Global Investors calculations)

As the tech stocks rebounded in the month, Growth did better than Value in August – the MSCI China Growth Index rose 1.0% in USD while the MSCI China Value Index fell 0.7%. Year-to-date however, the Growth Index has fallen 23.5% while the Value Index has fallen by 15.2% in USD.



(Data from 31/07/22 to 31/08/22, returns in USD, source: Bloomberg, Guinness Global Investors calculations)

The best-performing sectors were Energy, Communication Services and Consumer Discretionary. Rising oil prices and expectations of future higher prices led to strong performance for the Energy sector. The strong performance of the tech stocks led to good performance in Communication Services (containing Tencent and Netease) and Consumer Discretionary (containing Alibaba and Pinduoduo).

The weakest-performing sectors were Health Care, Information Technology and Materials.

COMPANY UPDATES

Most of the Fund's holdings reported their second-quarter or interim results in August, where of course lockdowns in the second quarter negatively impacted results. For the companies that report quarterly results, the median increase in revenue and earnings per share (EPS) in the second quarter was 4% and 6% respectively. For the companies which disclose interim results, the median increase in revenue and EPS in the first half of the year was 9% and -3% respectively. Below we highlight noteworthy results for our holdings.

Shengyi Tech reported second-quarter revenue which fell 14% and EPS which fell 48%. Shengyi makes copper-clad laminates (CCLs) which are the base material for printed circuit boards (PCBs). Consumer demand has been weak, leading to falling CCL prices, but there has been more stable pricing in the past month. CCL inventories are reaching a more normalised level which may reduce pricing pressure. We expect Shengyi to continue to move up the value chain by focusing on high-end CCL products in the server, telecom and automobile markets. Shengyi is also expected to benefit from more Chinese customers localising their production.

Tencent's revenue fell 3% in the second quarter and its net income fell 56%. In its ad business Tencent did well to capture a bigger share of e-commerce business's ad spend in the 618 shopping event. This meant the decline in the advertising business was less than expected. News reports also indicated that Tencent is planning on selling its stake in Meituan (the Chinese version of Deliveroo/Uber Eats). Though it is unclear whether the whole stake will be sold, this is a continuation of a trend we have seen over the past 12 months. Large tech companies are selling down their stakes in other businesses, most likely at the request of the central government, which is reducing monopoly power. For example, late last year Tencent sold most of its stake in JD.com, a Fund holding which is one of the largest e-commerce businesses in China.

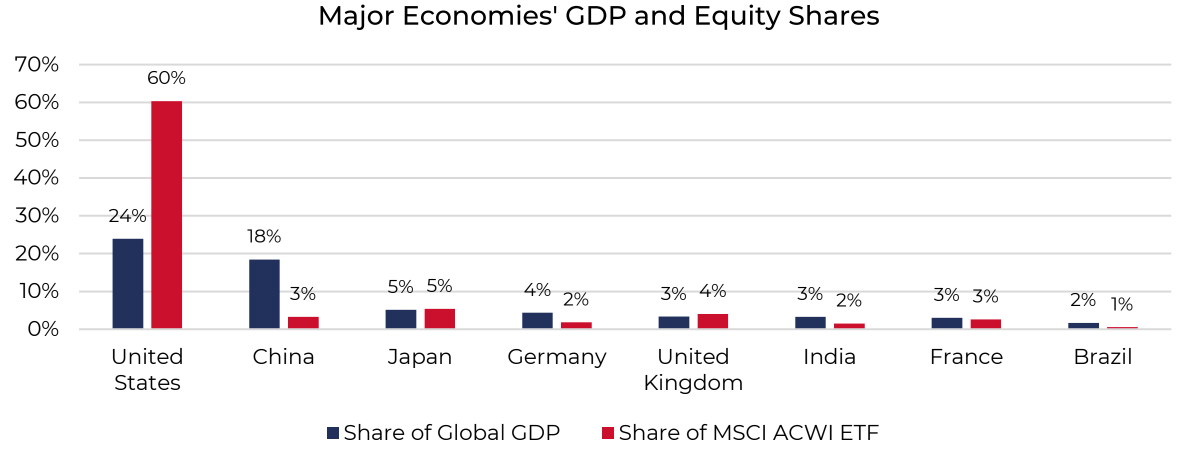
Hong Kong Exchanges & Clearing (HKEX) reported second-quarter revenue which fell 8% and EPS which fell 22%. Weak equity markets in Hong Kong and a subdued landscape for new company listings explained the top-line contraction. Weak markets also led to low investment income, offsetting the higher income from margin balances which benefited from higher interest rates. Labour costs, which account for two thirds of the cost base, were up 18% due to new hires and higher wages. A positive long-term driver was the announcement of the ETF Connect and Swap Connect, which will allow ETFs and swaps between the mainland and Hong Kong to be traded.

In the first half of the year, Geely's revenue rose 29% but its EPS fell 37%. Volumes fell 3% but higher average selling prices (ASPs) led to an increase in revenue. Despite the rise in revenue, margins fell as battery costs, selling expenses and R&D costs increased. Tight semiconductor supply is an additional problem, but thanks to its size, Geely has signed agreements with large chip companies to better secure supply. Geely is also making more key components in-house to lower costs and its reliance on tight supply chains. The company's electric vehicle (EV) sales are rapidly increasing, and this is the key focus for the future. Its premium model received more than 10,000 orders in July alone, which is a sign of Geely's growing success in the space.

Inovance's second quarter revenue rose 16% and its EPS rose 34%. Management is maintaining guidance from the beginning of the year, aiming to grow revenue 25-50% and net profit 10-30%. The industrial automation business grew 32% with good growth across all segments. The EV component segment grew 93% and Inovance now has top-five market share in controllers, powertrains and motors. The industrial robots business grew 30% and Inovance now has meaningful market share in its main product line. The elevator business, however, remains weak due to the property slowdown.

China Medical System (CMS) reported interim revenue which grew 16% and EPS which grew 11%. Of the company's main products, Deanxit, an antidepressant, is not going to enter the national Volume Based Procurement (VBP) list, which means most hospitals will no longer offer the product. For Deanxit to have made it onto the VBP list, CMS would have to accept a steep price discount in return for the larger volumes, which it rejected. Through the over-the-counter channel CMS can mitigate some of the lost volumes. In response to pricing pressure for generics, CMS has been developing its own innovative drug business which is subject to fewer price cuts.

OUTLOOK



(Source: World Bank, Guinness Global Investors calculations. GDP refers to 2021 nominal GDP. MSCI ACWI ETF refers to the weights derived from the iShares MSCI All Country World ETF (ACWI US), as of 29/07/22. Categorisations done based on domicile.)

In the current gloomy outlook for Chinese equities, it is easy to forget the attractive long-term story. Despite China's large share of global GDP, its Chinese equity markets are much smaller than one may think. As of July 2022, China only accounted for 3% of the MSCI All Country World Index, much lower than its 18% share of global GDP. As you can see above, the US has very developed financial markets with its share of global equity markets at 60%, well above its 24% share of global GDP. But looking at the other major economies, their equity shares are roughly in line with their GDP shares. China is the clear outlier here, representing an opportunity for investors, as we believe China's equity share of global markets is likely to increase over time.

What could drive this increase? One factor is linked to the treatment of China A-shares, which are mainland shares listed in Shanghai and Shenzhen. Currently index providers only include a portion of the valuation of these A-shares in their indexes. For example, MSCI include A-shares with an inclusion factor (IF) of 20%, which means they only include 20% of the relevant A-shares' market capitalisation in their calculations. We expect over time for this inclusion factor to increase as China opens up the A-share market, involving improvements over settlement cycles, hedging instruments and derivatives, as well as access to onshore renminbi. The expected increase in the inclusion factor is likely to lead to greater demand for A-shares, as passive funds are obliged to match the new index weights. The secondary effect is that A-shares and so China's overall weight in global benchmarks would increase, making China harder to ignore for asset allocators.

Portfolio Managers

Edmund Harriss

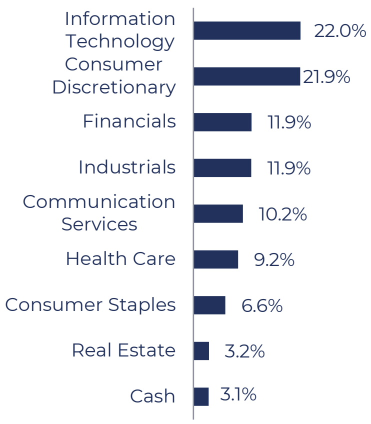
Sharukh Malik

PORTFOLIO

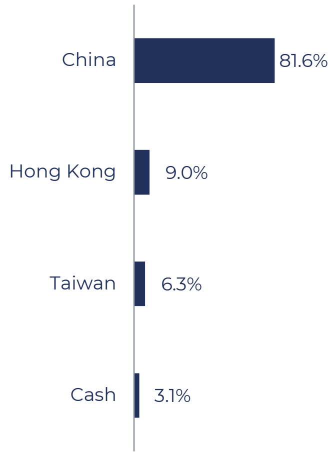
Fund top 10 holdings

JD.com	3.6%
NetEase	3.5%
Geely Automobile Holdings	3.5%
Baidu	3.4%
Venustech Group	3.4%
Shengyi Technology	3.3%
Inner Mongolia Yili Industrial	3.3%
Taiwan Semiconductor	3.3%
Tencent Holdings	3.3%
China Medical System	3.3%
% of Fund in top 10	33.8%
Total number of stocks	32

Sector analysis



Geographic allocation



PERFORMANCE

Past performance does not predict future returns **31/08/2022**

Annualised % total return from launch (GBP)

Discrete years % total return (GBP)	Aug '22	Aug '21	Aug '20	Aug '19	Aug '18	Aug '17
Fund (Y Class, 0.89% OCF)	-8.2	11.7	11.8	-2.0	-3.5	36.7
MSCI Golden Dragon Index	-11.4	5.5	20.0	2.2	0.9	32.5
IA China/Greater China sector average	-12.5	2.0	25.8	4.8	0.7	30.8

Cumulative % total return (GBP)	YTD	1 Yr	3 Yrs	5 Yrs	Launch
Fund (Y Class, 0.89% OCF)	-9.1	-8.2	14.6	8.4	80.3
MSCI Golden Dragon Index	-6.5	-11.4	12.2	15.7	97.6
IA China/Greater China sector average	-9.7	-12.5	12.2	18.5	89.9

RISK ANALYSIS **31/08/2022**

Annualised, weekly, from launch on 15.12.15, in GBP	Index	Sector	Fund
Alpha	0.00	-0.43	-0.72
Beta	1.00	0.99	0.97
Information ratio	0.00	-0.12	-0.16
Maximum drawdown	-30.24	-37.41	-28.06
R squared	1.00	0.92	0.85
Sharpe ratio	0.39	0.32	0.28
Tracking error	0.00	5.26	7.42
Volatility	17.86	18.44	18.92

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.