Guinness China A Share

2023 Annual Review & Outlook

GUINNESS GLOBAL INVESTORS

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.

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COMMENTARY

In 2023, the MSCI China A Onshore Index fell by 11.7% in USD. As the Fund was launched on 09/03/23 and does not yet have 12 months of performance, for compliance reasons we cannot show performance of the Fund.

In the Fund, the strongest stocks since launch were Shenzhen Capchem Technology, Nari Technology, Shengyi Technology, Zhejiang Supor and Shenzhen Mindray Bio-Medical Electronics. The weakest names were China Tourism Group Duty Free, Hangzhou First Applied Material, Zhejiang Weixing New Building Materials, Juewei Food and Sino Wealth Electronic.

Since the launch of the Fund, other areas which helped its relative performance were the underweight to the Materials sector along with good stock selection driven by Shenzhen Capchem. The underweight to the Real Estate sector, where the Fund has no exposure, also helped.

The Fund targets quality, profitable companies which give exposure to the structural growth themes in China. Therefore the Fund is invested in companies which have persistently grown earnings in the past, and are expected to continue doing so. The growth stocks the Fund targets sold off far more than the value stocks, where the Fund has little exposure.

The best performing sectors since the Fund launched were Energy, Utilities and Financials. The Fund has no exposure to Energy or Utilities because companies in these sectors do not contain high-quality, profitable companies which give exposure to the structural growth themes in China. The Fund only has 3.3% exposure to Financials and does not hold any banks because of insufficient exposure to structural growth themes. In the onshore market, banks are the largest industry with an 8.8% weight, but the Fund did not capture the banks' outperformance.

In an environment where the best performing sectors are where we have either little or zero allocation, we would not expect the Fund to outperform.

We have not made any switches since the launch of the Fund.

On estimated 2023 and 2024 earnings, the Fund is trading on a price earnings ratio of 19.0x and 15.3x. The current set of holdings is trading well below its aggregate 10-year average. Despite the Fund's low exposure to real estate and the banks, our companies are still facing the 'China' macro discount.

Over the past 10 years, our holdings have grown earnings by 15% a year. This compares favourably to the MSCI China A Onshore Index, where earnings have only grown by 3% a year over the past decade. Based on consensus analyst estimates, the Fund's holdings in aggregate are expected to grow earnings by 14% in 2023, 25% in 2024 and 19% in 2025. This compares favourably to the MSCI World Index, where earnings are expected to grow by 1% in 2023, 9% in 2024 and 10% in 2025. We argue that it is rare to see such attractive valuations for our group of high-quality, compounding companies which give exposure to the structural growth themes in China.

MARKET REVIEW

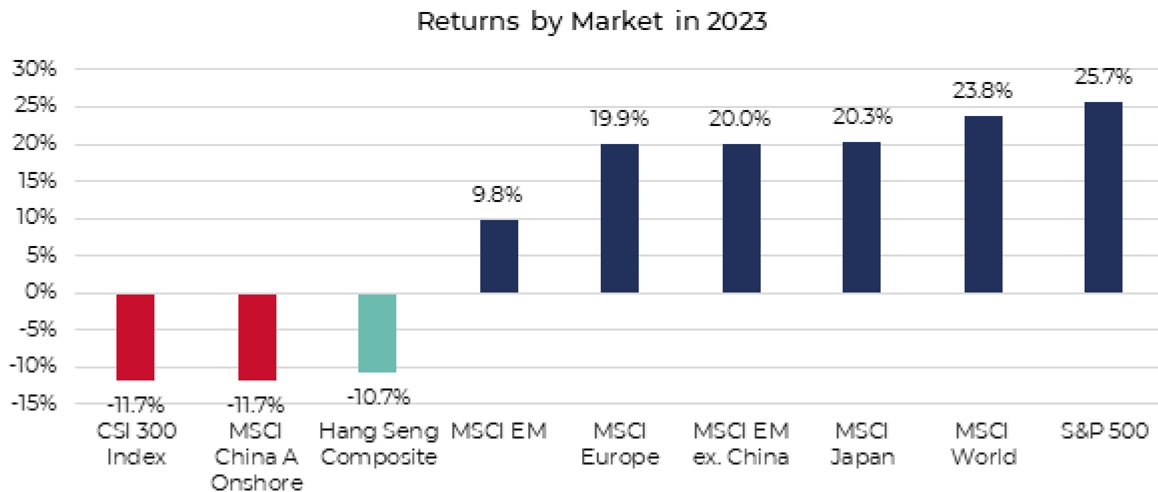
(Performance data in USD terms)

The year started off strongly for China, with markets continuing their post-reopening rally in January led by a valuation rerating. However, this rally proved to be short-lived as global banking issues and China concerns took centre stage. China's macro data was generally weaker than expected in 2023 with domestic demand remaining below forecasts. The government is trying to redirect policy focus and capital toward sectors and industries which it sees underpinning long-term competitive strength, growth and prosperity. Such areas include advanced manufacturing, especially in sustainable areas such as energy, cars and transport, and technology, specialised materials and healthcare.

This focus has come at the expense of sectors seen as absorbing high quantities of resources, capital and talent but which deliver diminishing returns or are less central to China's longer-term goals of industry leadership. A decade ago, this was the heavy industry segment of the steel producers and aluminium smelters. Now it is the turn of the property sector. The government has made it clear, by its adherence to the tight credit restrictions it imposed on companies and by its unwillingness to bail out companies or those that invested in or lent to them, that the era of debt-fuelled growth is over.

The situation in the technology sector is rather more nuanced. The regulators have clamped down on forays into the finance sector (electronic payments systems morphing into deposit taking and lending), on monopolistic behaviour (under the framework of an 'eco-system' that sets unfairly one-sided terms for inclusion) and in those areas seen to be potentially socially detrimental including online education (very high fees and doubtful quality) and video games. E-commerce as a commercial activity is not seen as a problem from a regulatory perspective beyond anti-competitive practices that may hurt merchants and consumers. In this case, these issues have emerged in a maturing industry amid competition between large players (Alibaba, Tencent, JD.Com, Bytedance, Pindoduo, Meituan), and the regulatory framework is trying to keep up.

The result has been akin to a perfect storm, but one we believe China can withstand. Slower external demand has hurt exports; declining property prices have undermined consumer confidence, already weakened by three long years of harsh Covid restrictions; the e-commerce companies are cutting costs and scaling back rather than absorbing large numbers of new graduates; and youth unemployment is well above overall unemployment. However, while investors are focusing on today, when considering the future, it is worth remembering that China is far from broken. The country is well capitalised, its banking system is liquid and stable, and the country is still generating net positive trade flows (i.e. a trade surplus). It dominates in several of the key industries it has focused on (solar, wind, EVs, batteries, 5G telephony). To judge by the share of citations in leading academic journals from Chinese researchers (in subjects ranging from AI technology, advanced communications, advanced materials and manufacturing, transportation, sensing, energy & environment) there is the intellectual capital to back it up. In this context, the revelation that China can produce semiconductors to a 7-nanometre standard, albeit to a limited extent, seems less surprising.



Source: Bloomberg, Guinness calculations. Performance in USD. Data from 31/12/22 to 31/12/23

Compared to other major markets, China was a clear laggard in 2023 as the post reopening rally faded. As we have argued in the past, we believe the government is intentionally deleveraging the property sector in order to free up capital towards the pillar industries that will make China a high-income country. The transition is likely to be painful for those who have an investment strategy reliant on rising property prices. (Please see our September commentary for a detailed breakdown of the property sector and its impact on China's financial system.) Our strategy is not reliant on property market growth; instead we target profitable, high-quality companies which give exposure to the structural growth themes in China.

The MSCI China A Onshore Net Return Index fell by 11.7% in 2023, compared to the MSCI World Index which rose by 23.8%.

Source: Bloomberg, Guinness calculations. Performance in USD. Data from 31/12/22 to 31/12/23

The year started off strongly for China, with markets continuing their post-reopening rally in January. The online technology firms were boosted by comments made by a senior government official, who said the "capital rectification" regulation for the sector was complete. Approvals for video games also continued, improving the prospects for Tencent and NetEase. Consequently, the internet platform names did well. However, January marked the peak for Chinese markets. Later in the first quarter, stocks sold off globally as high inflation in the US led to rising expectations of further increases in interest rates in developed markets. Soon this was followed by the collapse of Silicon Valley Bank, and the emergency takeover of Credit Suisse in Switzerland, leading to concerns over the viability of America's and Europe's banking system.

In the second quarter, China's macro data came in generally weaker than expected and we saw value stocks begin to significantly outperform growth stocks. One of the main reasons behind the outperformance of value was driven by the

enthusiasm over reforms to state-owned enterprises (SOEs). The latest set of reforms aim to improve the SOEs' operating efficiency and corporate governance, in order to improve their valuations. The reforms also aim to task the SOEs with helping China's broader development goals, such as adopting newer technologies to increase China's self-sufficiency in technology.

In July, Chinese markets rallied on expectations of greater stimulus for the housing market and wider economy. The readout from the Politburo's meeting acknowledged "insufficient domestic demand" and mentioned the need for counter-cyclical economic policy. Supporting the private sector was mentioned, though at the time we argued actions rather than rhetoric was needed. The phrase "housing is for living, not for speculation" was removed from the statement, which was interpreted by most as a sign that more easing measures for the property market were on the way. However, we note that the phrase later reappeared in other government documents. The gains in July were erased over the next two months as wealth management products run by Zhongrong Trust failed to repay lenders, leading to fears over the strength of China's broader financial system. Country Garden, a large private property developer, failed to repay its maturing bonds on time. We also saw the ramp-up in the anti-corruption campaign in the healthcare sector.

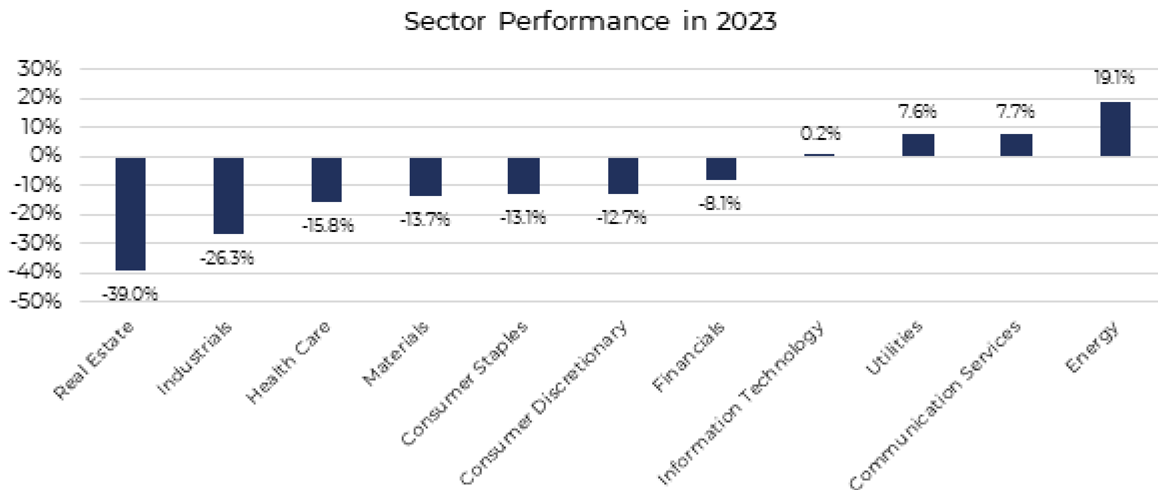
China started the fourth quarter by falling in October as globally, equities sold off on rising bond yields in the US. Both the Caixin and NBS PMI data points for October fell below 50, indicating weakening activity. The US tightened restrictions on exporting advanced chips and chip equipment to China. In November, global markets rallied on growing expectations of cuts to interest rates in the US. Chinese markets also initially rallied but only moderately in the month compared to the 9.4% rise seen for the MSCI World Index. This was because in the second half of November, Chinese markets gave back some of the gains due to disappointing quarterly results from some of the large tech names, along with mixed macroeconomic data. At the end of December, the *National Press and Publication Administration* unexpectedly released draft rules covering the video gaming industry. Our view is the regulator is trying to limit some of the practices used by the industry which could be viewed as encouraging addictive behaviour. Video game stocks sold off sharply on the day of the news, although they partially recovered in the following days. Comments from various government sources made it clear the government is supportive of the industry's growth, while a new batch of video games was approved for release, solidifying the industry's pipeline of games for the next year.

Source: Bloomberg, Guinness calculations. Performance in USD. Data from 31/12/22 to 31/12/23

In 2023, value stocks outperformed growth stocks in the onshore market. The MSCI China A Onshore Value Index was flat compared to the MSCI China Growth Index which fell by 19.1%. As the chart above shows, value began to noticeably outperform growth from March onwards and this lasted until October.

For much of this period, the outperformance of value was driven by enthusiasm over SOE reforms as well as a rotation into cheaper stocks with less demanding earnings estimates. As a reminder, the Fund targets quality, profitable companies which give exposure to the structural growth themes in China. So in an environment where low-quality stocks outperform, many of which are classed as value, we would not expect the Fund to outperform.

Onshore markets, as measured by the MSCI China A Onshore Index, underperformed offshore markets, as measured by the Hang Seng Composite Index. In 2023, the MSCI China A Onshore Index fell by 11.7% compared to the Hang Seng Composite Index which fell by 10.7%.

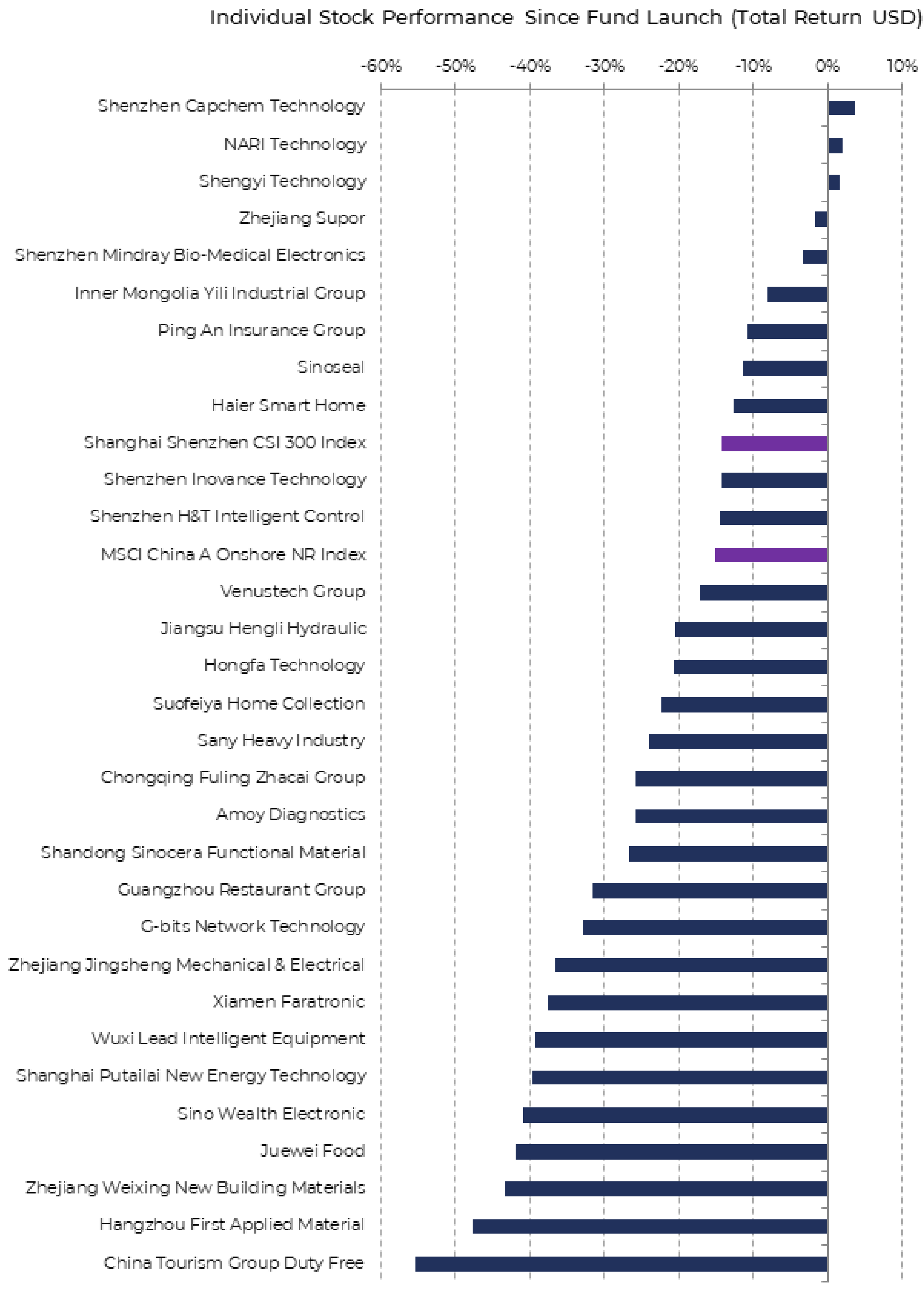


Source: Bloomberg, Guinness calculations. Sectors refer to CSI 300 Index sectors. Performance in USD. Data from 31/12/22 to 31/12/23

The strongest sectors in the onshore market were Energy (total return +19.1%), Communication Services (+7.7%) and Utilities (+7.6%). Energy names were strong due to higher oil prices – note the Fund does not have an allocation to this sector because of the lack of exposure to the structural growth themes we target. Within Communication Services, the strongest names were China Mobile and China Telecom, which benefited from the rotation into value. Utilities outperformed in a risk-off environment.

The weakest sectors were Real Estate (total return -39.0%), Industrials (-26.3%) and Health Care (-15.8%). The Real Estate sector sold off sharply, driven by the precarious position of private property developers and the sharp fall in sales for the entire sector. The main laggards in Industrials were those with exposure to electric vehicles and renewable energy: CATL, Eve Energy and Sungrow Power. The Health Care sector's weakness in the first half of the year was predominantly driven by biotech names which were facing higher funding costs, restraining their growth. Additionally, slower growth expectations led to weakness for the generic pharmaceutical companies. In the third quarter, the government started an anti-corruption push which made hospitals cautious and sales slowed down across the sector.

STOCK PERFORMANCE



Source: Bloomberg, Guinness calculations. Performance in USD. Data from 09/03/23 to 31/12/23

Leaders

Shenzhen Capchem Technology (total return +3.7% since launch) is one of China's largest manufacturers of battery electrolytes, which allow lithium ions to flow from the anode to the cathode when a battery is charging, and in reverse when discharging. Competition in China remains intense and so Capchem is expanding overseas, recently launching a joint venture in Poland along with LG Energy Solutions. The business also benefits from its organic fluorine chemicals segment, which caters for the inhalation anaesthesia market, reducing the volatility from the electrolyte business.

Nari Technology (+1.9%) makes hardware and software for China's national electricity grid. As China builds out its renewable energy capacity, the additional capacity will need to be connected to the grid, which implies continued growth for Nari's products. In 2023, Nari won projects to build several Ultra High Voltage lines, which carry electricity over long distances while reducing energy loss compared to conventional lines.

Shengyi Technology (+1.5%) is one of the world's largest manufacturers of copper clad laminates (CCLs) which are the base material for printed circuit boards (PCBs). CCL prices were falling for the first half of 2023 but pricing and profitability improved in the third quarter, driven by greater demand from automotive and server customers. Expectations for the business were relatively undemanding at the beginning of the year, meaning the stock attracted more attention as other growth stocks with much more demanding valuations did not deliver.

Zhejiang Supor (-1.8%) is a manufacturer of kitchenware and small household appliances. Supor has benefited from greater export orders for its parent company based in France, Groupe SEB. Supor is expecting sales to Groupe SEB to grow by 25% in 2023. Competition in the domestic market remains intense given the macroeconomic situation. Management aim to balance margins and growth by focusing on the premium end of the market.

Shenzhen Mindray Bio-Medical Electronics (-3.3%) is a manufacturer of healthcare equipment and diagnostics tests, focusing on patient monitoring and life support equipment, in vitro diagnostics and medical imaging. As China continues to build out its healthcare infrastructure, we expect Mindray to benefit from continued sales growth. China's in vitro diagnostics (IVD) market is also expected to grow at a faster rate than the global market while at the same time, Mindray is moving up the value chain.

Laggards

China Tourism Group Duty Free (total return -55.2%) is China's largest operator of duty free stores. Though the company saw a strong recovery in growth in 2023, it was not as fast as the market had been expecting at the beginning of the year. According to the company's preliminary announcement, in 2023 revenue grew by 24% and net profit grew by 34%. Onerous revenue sharing agreements with airports, which were beneficial during covid, weighed on margins given passenger volume has been increasing. New terms were recently agreed for 2024 which should lead to a boost in margins going forward. The stock's forward year price earnings ratio has now de-rated to 18.9x, which is the lowest level seen since 2016.

Hangzhou First Applied Material (-47.6%) is the world's largest manufacturer of solar film, which is used to protect solar modules. Polysilicon prices have plummeted from their peak in 2022, leading to lower prices across the supply chain. Even though First Applied's volumes increased significantly in 2023, the fall in prices has moderated revenue growth. Earnings estimates have been cut significantly, though the market is still expecting earnings growth for First Applied. We continue to hold the stock because they the business is conservatively financed and can weather weaker periods. We expect the company to benefit as its weaker competitors eventually exit the business, as some are unprofitable at current prices.

Zhejiang Weixing New Building Materials (-43.4%) makes plastic pipes and predominantly targets the retail channel. Due to the slump in the property market, revenue has disappointed though the decline gradually improved over the year. Management is targeting earnings quality and amongst larger customers, is prioritising margins and cash collection. In 2024, management expect the market to contract but still aim to grow through increasing market share and focusing on cross selling products. Weixing aims to sell more of its waterproofing coating and water purifier products, which are installed at the same time as new pipes.

Juewei Food (-41.8%) operates stores selling braised snacks, mostly covering duck and vegetable dishes. Though revenue and earnings have risen significantly this year, again growth has been weaker than expected. Rising meat costs weighed on margins in the first half of the year, though this is likely to have turned in the third quarter.

Sino Wealth Electronic (-40.8%) is a chip designer focusing on microcontrollers, battery management chips and display drivers. Prices for microcontrollers and battery management chips stabilised in the second quarter but continued to decline for display drivers. Sino Wealth's inventory has also been increasing which is proving to be difficult to reduce. The company has a long-term agreement with its foundry signed in 2021, when the industry was facing a shortage of chips. The agreement commits Sino Wealth to receive a fixed quantity of semiconductor chips irrespective of end-user demand. Sino Wealth has partially resolved this issue by reducing periodic shipments from the foundry in exchange for lengthening the duration of the agreement, so that total volumes over the course of the contract remain unchanged.

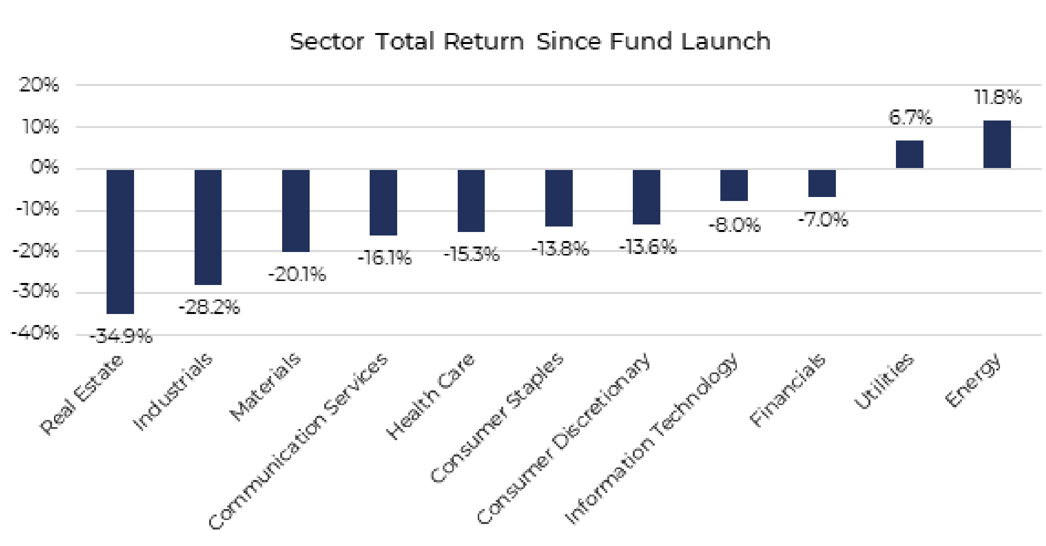
ATTRIBUTION

In 2023, the MSCI China Onshore Net Return (NR) Index fell by 11.7%. Relative to the MSCI China A Onshore NR Index, in addition to the stock specific drivers we have just discussed, areas which helped the Fund's performance since it launched were:

- Underweight to the Materials sector along with stock selection, driven by Shenzhen Capchem (total return +3.7%).
- Underweight to the Real Estate sector, where the Fund has no exposure.

Factors which detracted from the Fund's relative performance in 2023 were:

- Targeting quality, profitable companies which give exposure to the structural growth themes in China. Therefore the Fund is invested in companies which have persistently grown earnings in the past, and are expected to continue doing so. These growth stocks sold off – the MSCI China A Onshore Growth Index fell by 20.9% compared to the Value Index which only fell by 5.9%.



Source: Bloomberg, Guinness calculations. Sectors refer to CSI 300 Index sectors. Performance in USD. Data from 09/03/23 to 31/12/23

- No exposure to Energy, Utilities and Financials, the best performing sectors since the Fund launched. The Fund has no exposure to Energy or Utilities because companies in these sectors do not contain quality, profitable companies which give exposure to the structural growth themes in China.
- Only 3.3% exposure to Financials and no banks, because of the lack of exposure to structural growth themes. In the onshore market, banks are the largest industry with an 8.8% weight. The banks outperformed (total return -4.8%), snd the Fund captured none of their outperformance.

In an environment where the best performing sectors are where the Fund has either little or zero allocation, we would not expect the Fund to outperform.

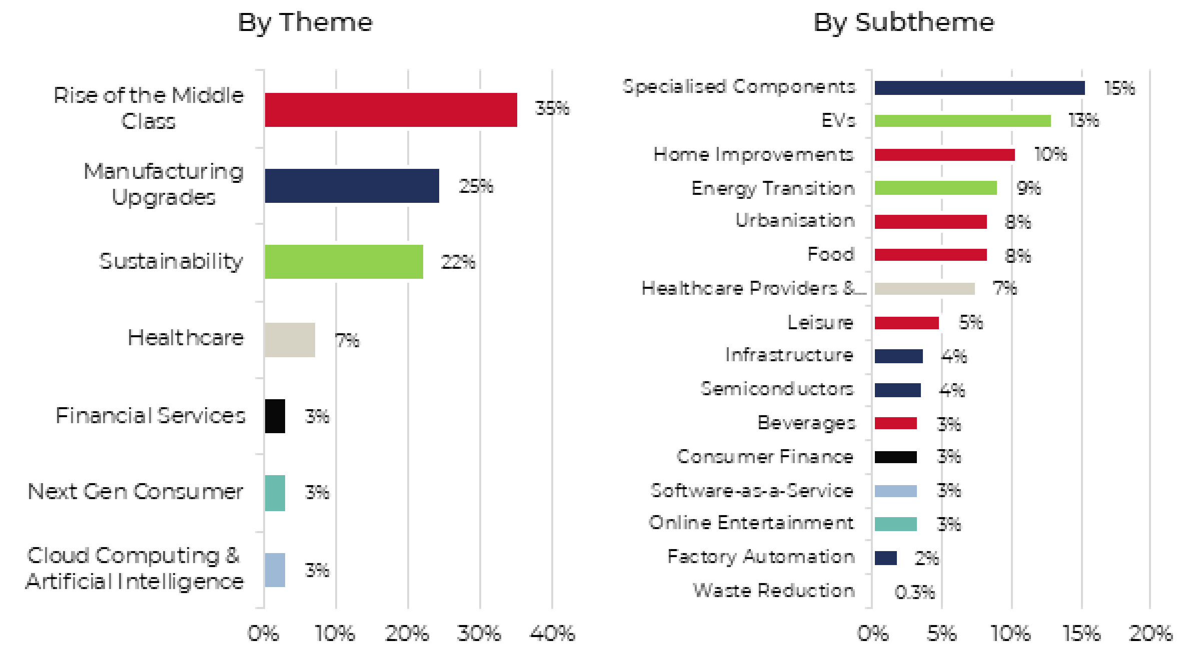
The growth names we do hold saw a valuation de-rating, from an aggregate 20.4x in Feb-23 to 18.7x in Dec-23.

PORTFOLIO CHANGES

No changes were made to the portfolio after the Fund was launched in March 2023.

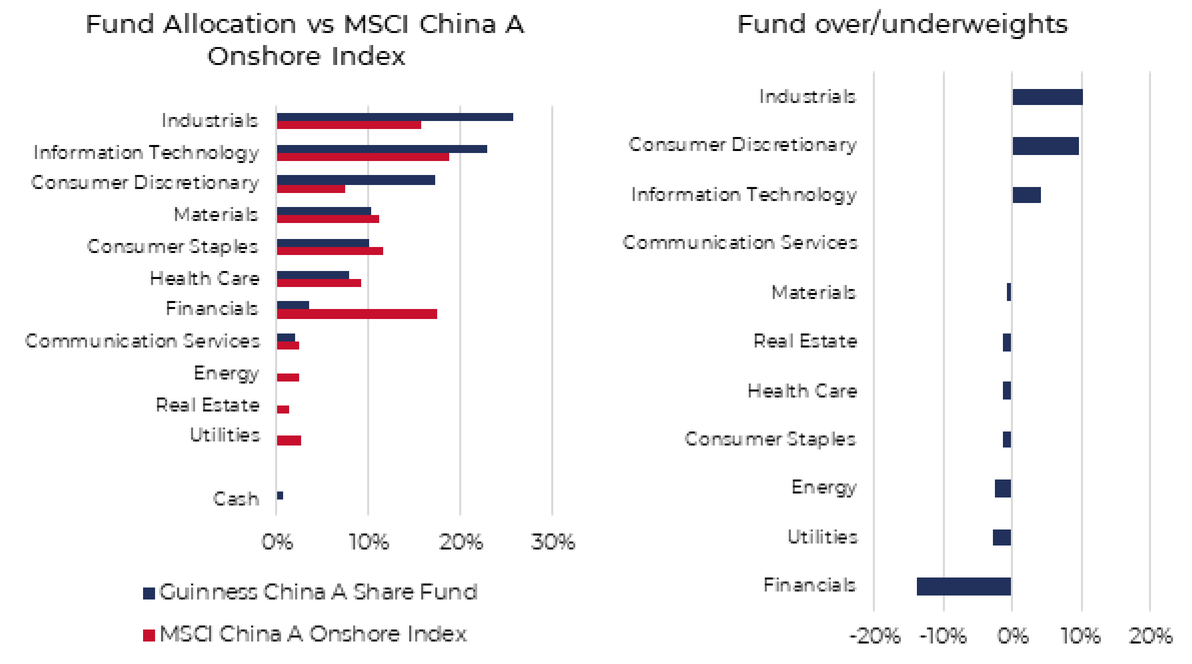
PORTFOLIO POSITIONING

By theme, the Fund's largest exposures are to the Rise of the Middle Class, followed by Manufacturing Upgrades and Sustainability. Important subthemes include Specialised Components, Electric Vehicles and Home Improvements.



Source: Data as of 31/12/23, source: Guinness Global Investors calculations. Data assumes portfolio is equally weighted

On a sector basis, the Fund's largest exposures are to Industrials and Information Technology. The Fund has no exposure to Utilities, Energy or Real Estate. Relative to the MSCI China A Onshore Index, the Fund is overweight in Industrials and Consumer Discretionary. The Fund is significantly underweight in Financials. This is because the Fund holds no banks, as they do not give sufficient exposure to the structural growth themes we target.



Source Data as of 31/12/23, source: Guinness Global Investors calculations, Bloomberg

TRIP TO CHINA

In May, we travelled to China to visit some of the holdings in the both the Guinness China A Share Fund and the Guinness Greater China Fund. The aim was to hear about the latest business developments and more importantly to engage with our holdings. Particularly with respect to ESG, Chinese companies have more room to improve when compared to developed market companies. We took the opportunity to suggest areas of improvement across environmental, social and governance factors. In summary, it was very encouraging to see that our companies were receptive to our ideas and were very keen to understand the perspectives of foreign shareholders. We summarise below the meetings we had for the companies held in the China A Share Fund.

Venustech is a large cybersecurity company. We spent most of our meeting suggesting improvements Venustech could make in its disclosures. In cybersecurity, labour is the main cost, and we suggested the company could disclose much more on how it develops and trains its staff. We also suggested improvements to governance, including greater independence on the audit committee and supervisory board.

Shenzhen Inovance Technology is a manufacturer of industrial equipment with a speciality in inverters, servos (motion controllers) and robotic equipment. We had the opportunity to visit the company's showroom, where we saw the range of products sold. The most impressive products were its six-axis industrial robots, with which the company aims to replicate its success in SCARA (Selective Compliance Assembly Robot Arm). Inovance makes some of the most extensive ESG disclosures among A share companies and they notably improved in the reports covering 2022. We suggested that Inovance make the audit committee fully independent and that it should sign up to the UN Global Compact.

Shenzhen H&T Intelligent Control is a manufacturer of controller chips for household appliances and power tools. H&T's customers include well-known brands such as Electrolux, Whirlpool, Siemens, TTI (Techtronic), Hisense, Haier and Supor. As H&T's customers are diversifying their suppliers from a geographic perspective, it has set up production bases in Vietnam and Romania. This is an important point; while foreign companies are diversifying from China, Chinese companies are also willing to diversify with them. We made a range of suggestions on ESG. For example, we suggested H&T disclose the opportunities available in electric vehicles and energy storage solutions. We also suggested that they disclose more policies related to labour, namely how labour relations are managed and the training and development opportunities available to staff. H&T has an anti-corruption policy which it maintains internally, and we suggested that it disclose the policy to shareholders. We were given a tour of some of the production facilities, which were highly automated.

Weixing New Building Material is a pipe manufacturer focusing on polypropylene pipes. Most of its sales come from the retail channel and the company is well known for its high-quality products and services. Weixing offers installation of pipes to its customers, offering its own staff rather than relying on third parties. This, in the company's view, is its competitive advantage as many of its competitors use third party staff where there is less control of the quality of service. On engagement, we suggested that the company improve disclosure regarding health and safety policies and carbon emissions.

Shengyi Technology is one of the world's largest manufacturers of copper clad laminates (CCLs) which are the base material for printed circuit boards (PCBs). The company now aims to increase its share in the higher end of the market. We suggested improvements to governance structures, namely the composition of the various committees. We also recommended that the company more clearly disclose any opportunities arising from the transition towards green energy, such as electric vehicles and energy storage solutions.

Jiangsu Hengli Hydraulic makes cylinders used in construction equipment, tunnel boring machines and aerial work platforms. Its customers include well known Chinese and foreign companies such as Sany, XCMG and Caterpillar. For construction equipment, Hengli specialises in larger excavators which are not economical for the underlying customers to make themselves. In terms of future growth, Hengli believes agricultural machinery is the next growth driver, which is encouraging because the government is also keen to grow the domestic industry. We suggested to the company that in the next set of reports, it disclose waste reduction targets and the opportunities available as electric excavators become more popular.

OUTLOOK

Structural Growth

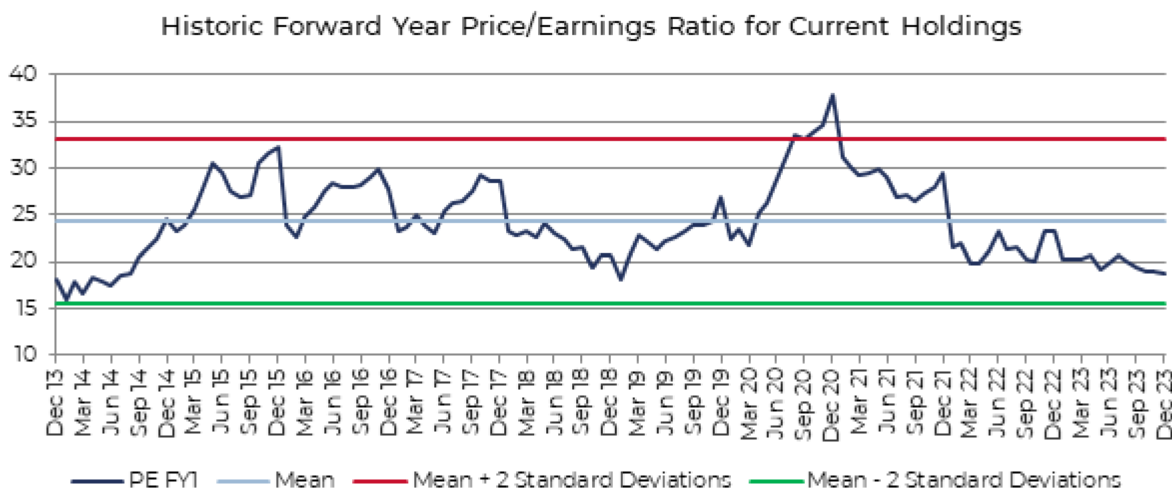
We briefly discuss our outlook on our Sustainability structural growth theme, which contained some of the names in the Fund that were weaker in 2023 but which we argue are likely to deliver good returns over the coming years.

For our companies with exposure to China's energy transition, we expect some consolidation in the solar industry in the current environment of falling prices. We expect Hangzhou First Applied Material, with its strong balance sheet and leading global market share, to benefit as its weaker competitors exit the industry. We expect more stable prices to lead to strong earnings growth in 2024. The management of Zhejiang Jingsheng Mechanical & Electrical, which makes crystal growing furnaces used to heat silicon, expect orders to continue to grow. This is likely to be driven by demand for the latest generation of furnaces which are more efficient and allow customers to benefit from even greater economies of scale. As China continues to expand its electricity grid to accommodate its investments in renewable energy, we expect continued growth for Nari Technology, which manufactures both hardware and software for the national grid.

In the EV space, given concerns on potential overcapacity in China, we expect our companies to continue their expansion abroad. Hongfa Technology, which supplies electric relays used for charging electric vehicles, has started to use its factory in Indonesia to supply Tesla. Hongfa has also begun to sign up Japanese clients. Wuxi Lead Intelligent Equipment, which makes battery production equipment, has signed up LG Energy Solutions, its first major Korean customer. Automotive Cells Company (a joint venture operated between Mercedes-Benz Group, Stellantis and Total Energies) is Lead Intelligent's second largest foreign customer. Volkswagen and Northvolt, Europe's largest battery manufacturer, are other major clients that Lead Intelligent supplies. Shanghai Putailai New Energy Technology is one of the world's largest manufacturers of graphite anode material, which are sheets of graphite between which lithium ions are stored when a battery is being charged. In May it announced it would invest up to $1.5bn into a new anode plant in Sweden. The first customer of the new plant will be Northvolt. Shenzhen Capchem Technology is one of China's largest manufacturers of battery electrolytes, which allow lithium ions to flow from the anode to the cathode when a battery is charging, and in reverse when discharging. Competition in China remains intense and so Capchem is expanding overseas, recently launching a joint venture in Poland along with LG Energy Solutions.

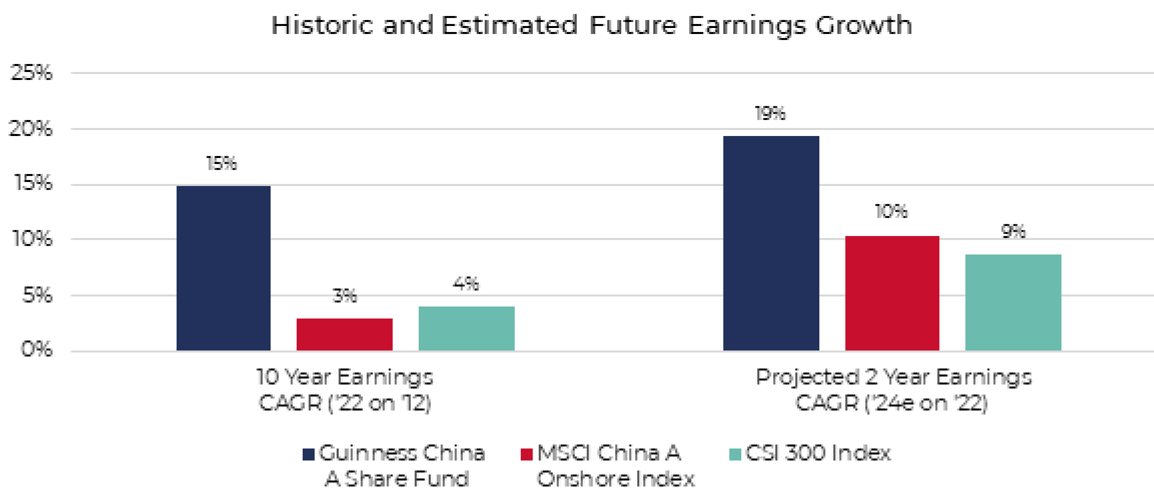
The Case for China Today

From an investment perspective, we remind readers that returns can be broken down into three components: changes in valuation multiples, earnings growth and dividends. Below we break down each component to argue why investors should be considering the Guinness China A Share Fund.



Source Data from 31/12/13 to 31/12/23, source: Bloomberg, Guinness Global Investors calculations. Calculations assume an equally weighted portfolio

The chart above shows the historic forward year price/earnings ratio, in aggregate, for the current holdings in the Fund. It is clear that the Fund's holdings, which trade at a forward price/earnings ratio of 18.7x, are trading at one of the lowest valuations in the past decade. This is despite the fact the Fund has minimal exposure to the areas that investors are most cautious on: real estate and the banks. Our holdings' valuations are being dragged down by the 'China' discount, despite their strong track record of earnings growth in various economic environments.



Source Bloomberg, MSCI, Guinness calculations. Data as of 31/12/2023. Earnings in CNY. Fund series assumes $1m equally weighted into current holdings. Data for the Guinness China A Share Fund is a simulation based on actual, aggregate, historic data for the Funds' current holdings. The Guinness China A Share Fund was launched on 09.03.2023. Index data uses historic holdings as of the end of each year

In the long term, we believe it is earnings growth which is likely to deliver returns for shareholders. Over the past decade, our holdings in aggregate have grown earnings by 15% a year. This compares favourably to the MSCI China A Onshore Index, where earnings have only grown by 3% a year over the past decade. Based on consensus analyst estimates, the Fund's holdings in aggregate are expected to grow earnings by 14% in 2023, 25% in 2024 and 19% in 2025. For context, the MSCI World Index is expected to grow earnings by 1% in 2023, 9% in 2024 and 10% in 2025. Therefore, despite the negative headlines on China, our companies are actually expected to grow earnings at a rate far higher than developed markets.

Though the Fund does not have a distribution share class, the expected 2023 dividend yield of our companies is 2.0%. We argue that in summary, the risk-reward ratio for our high quality, compounding companies, looks very favourable for investors.

We believe that for China to become more attractive to investors, earnings estimates need to stabilise. Earnings forecasts for China are still stronger than those for developed markets, but they have been scaled back, so while companies are still expected to generate good growth, the expected rate has been persistently lowered. Once earnings estimates stabilise, we think both domestic and foreign investors are likely to find China more attractive, which could begin a valuation rerating in addition to earnings growth.

What could stabilise earnings estimates? Given the size of the real estate sector to the economy, its slump is strong enough to offset the growth in China's future pillar industries. While these are growing quickly, they are not yet large enough to power overall economic growth. During this transition period, stimulus from the government is needed. Next year we can see the government cutting interest rates slightly and further lowering the required reserve ratio. But loose monetary policy is a blunt tool. The economy is facing a negative wealth effect from falling property prices, and even if credit becomes cheaper, often demand is the problem, not supply.

To address this, fiscal stimulus is likelier a better method but even here there are constraints. Some local governments have high levels of debt and are facing issues with servicing debt due to their revenue shortfalls. Income from land sales makes up c.50% of local government revenue, and sales are weak, local government revenues are under significant strain, so the central government will have to take on the brunt of fiscal easing. Here, we see signs the government may agree. In October, the government increased the official fiscal deficit from 3.0% to 3.8% of GDP, allowing it to issue RMB 1trn 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.

Portfolio Managers

Sharukh Malik
Edmund Harriss

GUINNESS CHINA A SHARE FUND - FUND FACTS

Fund size	$0.5m
Fund launch	09.03.2023
OCF	0.89%
Benchmark	MSCI China A Onshore TR

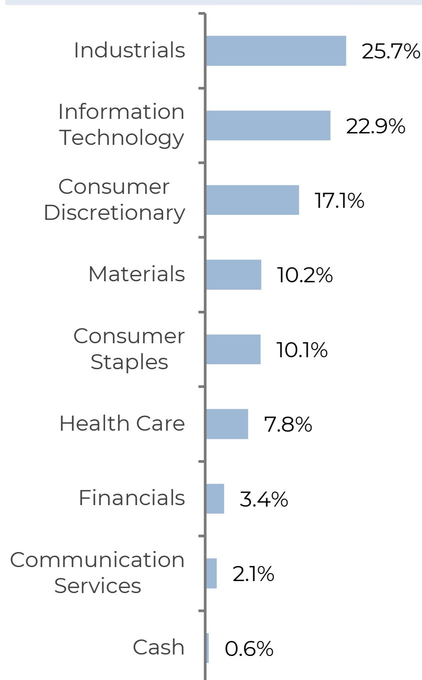
GUINNESS CHINA A SHARE FUND - PORTFOLIO

Top 10 holdings

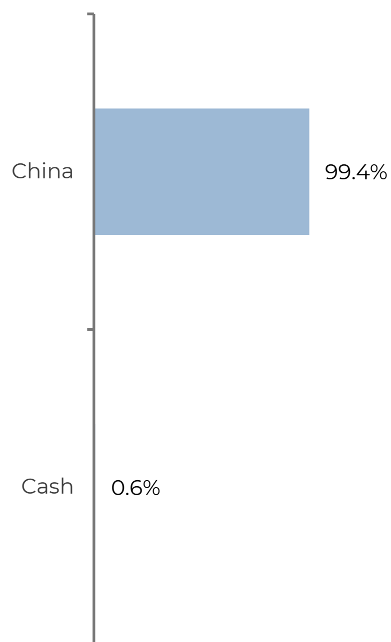
Shengyi Technology	4.8%
Shenzhen Mindray Bio-Medical E	4.2%
Zhejiang Supor	4.1%
Inner Mongolia Yili Industrial	3.8%
Suofeiya Home Collection	3.8%
Amoy Diagnostics Co Ltd	3.7%
Venustech Group	3.7%
Haier Smart Home Co Ltd	3.7%
Shenzhen Inovance Technology	3.6%
Ping An Insurance	3.5%

Top 10 holdings	38.8%
Number of holdings	30

Sector



Country



Past performance does not predict future returns.

GUINNESS CHINA A SHARE FUND - CUMULATIVE PERFORMANCE

(GBP)	1 Month	YTD	1 yr	3 yr	5 yr	10 yr
IA China/Greater China TR	-	-	-	-	-	-
(USD)	**1 Month**	**YTD**	**1 yr**	**3 yr**	**5 yr**	**10 yr**
IA China/Greater China TR	-	-	-	-	-	-
(EUR)	**1 Month**	**YTD**	**1 yr**	**3 yr**	**5 yr**	**10 yr**
IA China/Greater China TR	-	-	-	-	-	-

GUINNESS CHINA A SHARE FUND - ANNUAL PERFORMANCE

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

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

For regulatory reasons, we are unable to provide performance information where the track record is less than 12 months.

Source: FE fundinfo to 31.12.23. 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.