Guinness Greater China

2023 Annual Review and Outlook

GUINNESS GLOBAL INVESTORS

RISK

This is a marketing communication. Please refer to the prospectus, KIDs and KIIDs 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 can fall as well as rise as a result of market and currency movement, and you may not get back the amount originally invested. 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	15.12.2015
Index	MSCI Golden Dragon
Sector	IA China & Greater China
Managers	Sharukh Malik CFA Edmund Harriss
EU Domiciled	Guinness Greater China Fund

OBJECTIVE

The Guinness Greater 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.

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COMMENTARY

In 2023, the Guinness Greater China Fund fell 15.0% (Y class, GBP) while the MSCI Golden Dragon Net Total Return Index ("MSCI Golden Dragon Index") fell 6.5% and the MSCI China Net Total Return Index ("MSCI China Index") fell 15.8%. Therefore the Fund underperformed the MSCI Golden Dragon Index by 8.5% and outperformed the MSCI China Index by 0.9%.

The MSCI Golden Dragon Index is a weighted average of the MSCI China, Taiwan and Hong Kong indexes. As of 30/11/23, Taiwan's weight in the MSCI Golden Dragon Index was c.32%. In the Fund, we hold two positions in Taiwan which collectively have a weight of c.6.4%. As the MSCI Taiwan index rose significantly in 2023, the MSCI Golden Dragon Index captured much more of the rally in Taiwan than the Fund.

In the Fund, the strongest stocks in 2023 were Elite Material, Taiwan Semiconductor Manufacturing Company (TMSC), NetEase, China Medical System and Zhejiang Supor. The weakest names were Hangzhou First Applied Material, Xinyi Solar, JD.com, Wuxi Lead Intelligent Equipment and China Merchants Bank.

In 2023, relative to the MSCI China Index, the Fund benefited from good stock selection in Information Technology, Communication Services and Health Care. Detractors included stock selection in Financials and Industrials and the underweight to Energy, where the Fund has no exposure.

In the fourth quarter, relative to the MSCI China Index, the Fund benefited from stock selection in Health Care, Consumer Discretionary and Communication Services. Detractors included stock selection in Information Technology, Industrials and Financials.

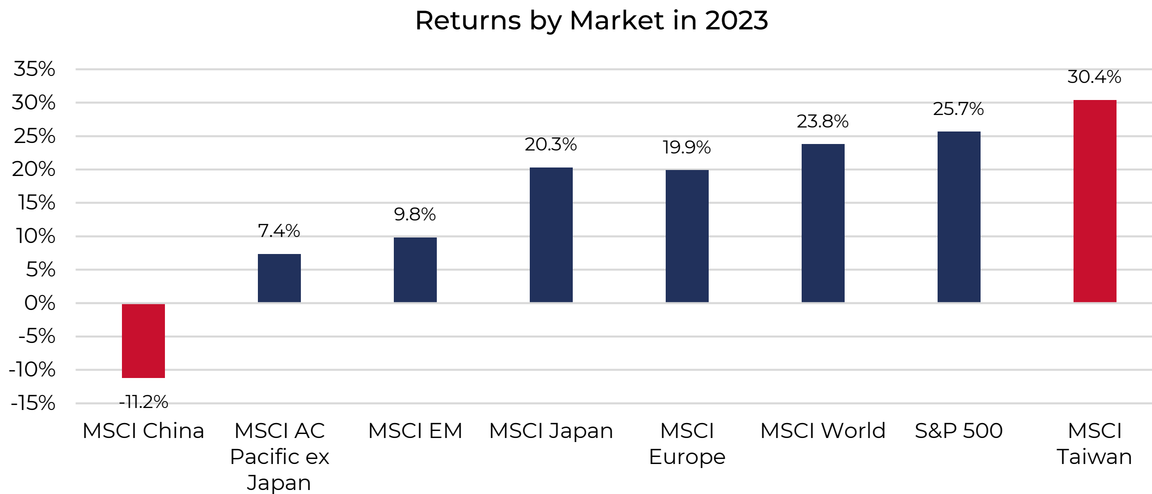
We made one pair of switches in the year, buying TravelSky and selling Shengyi Technology.

On estimated 2023 and 2024 earnings, the Fund is trading on a price earnings ratio of 13.2x and 11.2. This is close to two standard deviations below the current set of holdings' 15-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 9% a year. This compares favourably to the MSCI China Index, where earnings have actually contracted by 1% a year over the past decade. Based on consensus analyst estimates, the Fund's holdings in aggregate are expected to grow earnings by 20% in 2023, 17% in 2024 and 15% 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. At current valuations, we believe the Fund represents outstanding value to investors for the premium growth on offer.

MACRO REVIEW

(Performance data in the section in USD terms)

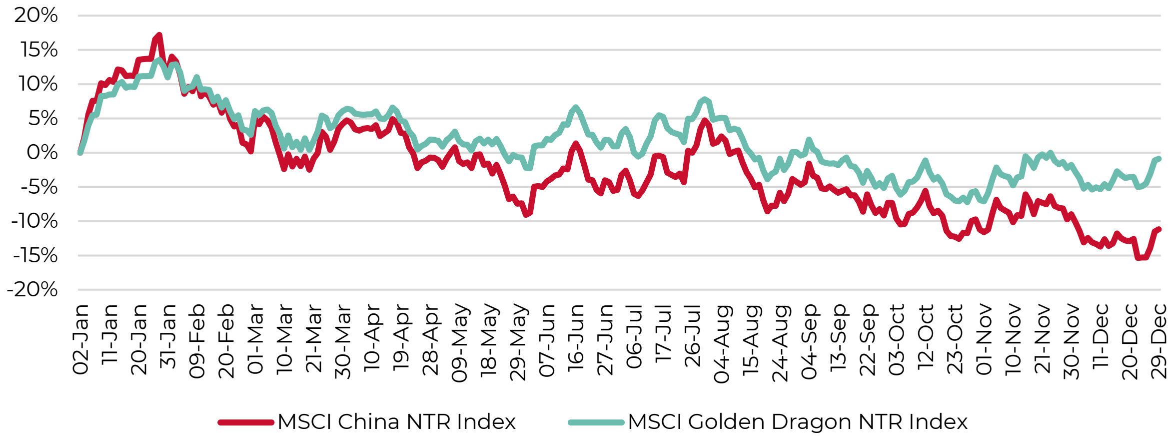


(Source: Bloomberg, Guinness calculations. Performance in USD. Data from 31/12/22 to 31/12/23)

Compared to other major markets, China was a clear laggard in 2023 as the post-reopening rally faded. Many investors were expecting a substantial rebound in economic activity, and while there has been some growth, on the whole the recovery has been much weaker than expected. As we have said previously, 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 Index fell by 11.2% in 2023, compared to the MSCI World Index which rose by 23.8%. On the other hand, Taiwan was a bright spot as the MSCI Taiwan Index rose by 30.4%. Due to Taiwan's much higher exposure to semiconductor companies involved in artificial intelligence (AI), the Taiwanese market captured far more of the rally in AI-related stocks.

GUINNESS GLOBAL INVESTORS



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

The MSCI Golden Dragon Index is a weighted average of the MSCI China, Taiwan and Hong Kong indexes. As of 30/11/23, Taiwan's weight in the MSCI Golden Dragon Index was c.32%, explaining its outperformance versus MSCI China.

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. From the trough in October 2022 to the peak in January, the MSCI China Index rose 60%. Much of the post-reopening rally was led by a valuation rerating for China, which was trading at very attractive prices before the zero-covid policy was dismantled. At the end of October 2022, the MSCI China Index was valued on a forward year price/earnings ratio of 9.2x. At the peak in January 2023, it was valued at a price/earnings ratio of 13.5x, meaning valuations increased by 47%, accounting for more than three quarters of the post-reopening rally.

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 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.

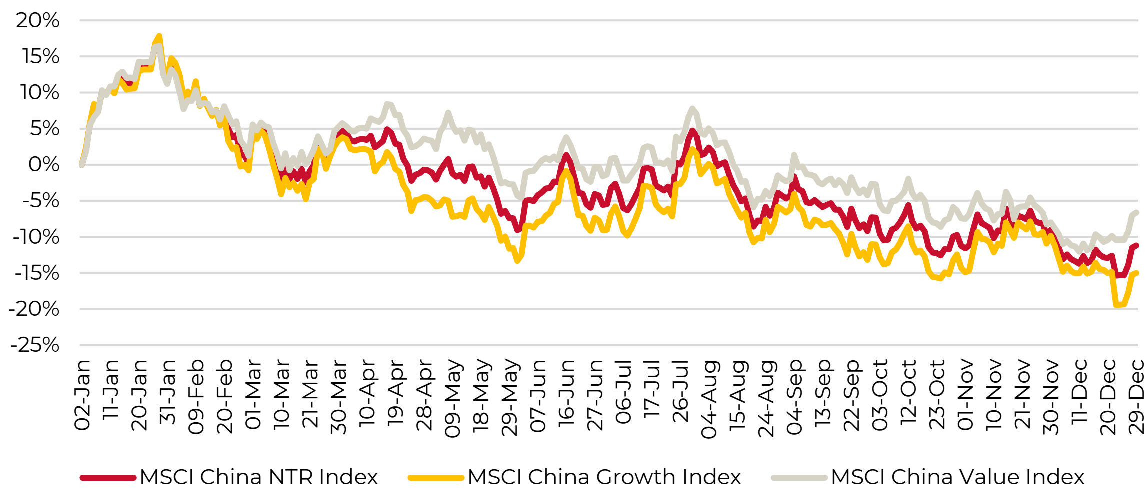
In the second quarter, China's macro data came in generally weaker than expected and we saw value stocks begin to significantly outperform growth stocks. One of the main reasons behind the outperformance of value was driven by the enthusiasm over reforms to state-owned enterprises (SOEs). The latest 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 with the MSCI China Index rising by 10.8%. Markets were strong 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 were 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 the MSCI China Index fell by 9.0% in August and a further 2.8% in September. 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 4.3% 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

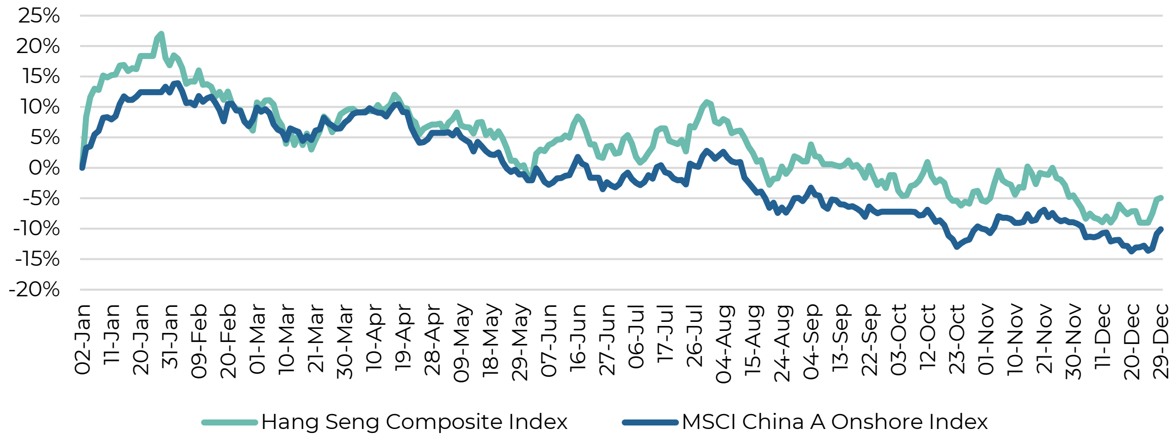
on exporting advanced chips and chip equipment to China. The Chinese government announced it would issue CNY 1 trn ($137bn) in additional central government bonds, the proceeds of which were to be spent on infrastructure in areas with recent natural disasters. In November, global markets rallied on growing expectations of cuts to interest rates in the US. Chinese markets also initially rallied but only rose by 2.5% 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 such as Alibaba and Meituan, along with mixed macroeconomic data. Reports suggested that the People's Bank of China may supply more than CNY 1 trillion ($141bn) for low-cost financing for affordable housing and renovation of villages. According to estimates from JP Morgan, this would fund renovation of villages for one or two years. Reports also indicated up to 50 large property developers may be eligible for cheaper financing, with banks potentially offering non-secured lending (i.e. not backed by collateral).

In December, Chinese markets sold off again due to mixed macro data – for example, retail sales growth and consumer price inflation were weaker than expected. At the end of the month, 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, though 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.



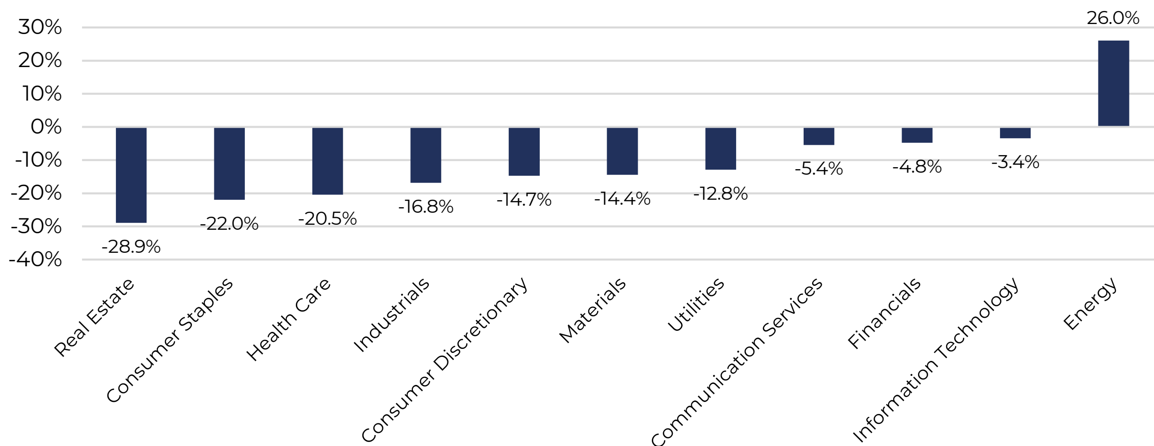
(Source: Bloomberg, Guinness calculations. Performance in USD. Data from 31/12/22 to 31/12/23)

In 2023, value stocks outperformed growth stocks. The MSCI China Value Index fell by 6.6% compared to the MSCI China Growth Index which fell by 15.0%. 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.



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

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 10.1% compared to the Hang Seng Composite Index which fell by 4.9%. In contrast, the MSCI Taiwan Index rose by 30.4%.

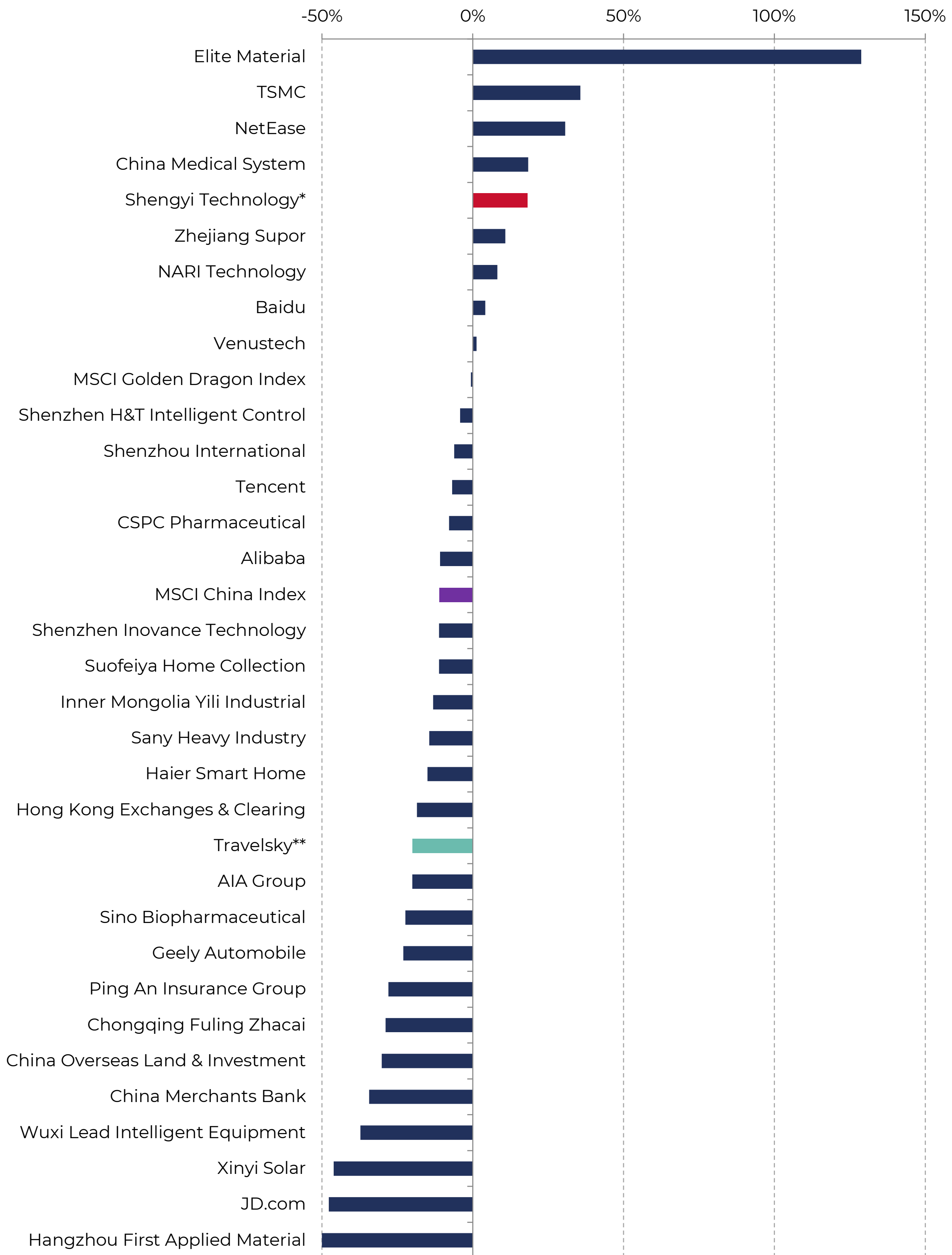


(Source: Bloomberg, Guinness calculations. Performance in USD. Data from 31/12/22 to 31/12/23)

The strongest sectors were Energy (total return +26.0%), Information Technology (-3.4%) and Financials (-4.8%). Energy names were strong due to higher oil prices; the Fund does not have an allocation to this sector because of the lack of exposure to the structural growth themes we target. Within Information Technology, the strongest names were Zhongji Innolight, WUS Printed Circuit and Lenovo Group. Financials outperformed, driven by the large state-owned banks, which benefited as investors turned to value stocks.

The weakest sectors were Real Estate (total return -28.9%), Consumer Staples (-22.0%) and Health Care (-20.5%). 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 Consumer Staples were Mengniu Dairy, JD Health and liquor stocks China Resources Beer, Tstingtao Brewery and Wuliangye Yibin. 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

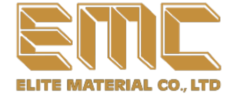


* sold in Q1 ** bought in Q1

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

Leaders

Below we discuss the best performing stocks that were held for the entire year.



Elite Material (total return +128.7%) supplies copper clad laminates (CCLs) which are used as the base material for printed circuit boards (PCBs). Elite is benefiting from the surge in interest in generative artificial intelligence (AI) as the servers which underpin this demand require more advanced CCLs, where Elite has a very strong presence in. According to JP Morgan, Elite potentially has at least 85% market share of the most complex materials in AI servers, explaining its share appreciation in the year. In the third quarter, revenue from AI servers rose to 22% of total revenue, which was far higher than the sell side was estimating. Sales from these AI servers are also higher-margin, so Elite's gross margins reached a record high in the third quarter.

TSMC (total return +35.6%) is also a beneficiary of the interest in generative AI, as it is one of the few foundries that can produce the required cutting-edge chips. For the non-AI business, which currently accounts for nearly all of revenue and earnings, TSMC is still seeing its end customers going through an inventory correction. Inventory in the PC and server industries has clearly fallen compared to the peak in 2022, while handset inventory remains elevated. The general expectation is that inventories may bottom in 2024, leading to a recovery in sales and an improvement in TSMC's utilisation rates in older nodes. TSMC is also likely to benefit from Intel outsourcing some of its capacity, given Intel is struggling to scale up in the 10nm space.

NetEase (total return +30.6%) is a video game developer. The business' *Eggy Party* game had a good first year, peaking at 100 million monthly active users in August. For context, China has 660 million gamers, so the game is a huge success. While NetEase is mostly known for its games targeting dedicated gamers, *Eggy Party* targets the casual gamer and was the most downloaded game in China in 2023. The company's other recent release, *Justice Mobile*, is also targeting new users and earned RMB 5bn in its first two months of release.

Despite being affected by the ongoing anti-corruption campaign in the Health Care sector, **China Medical System** was one of the Fund's strongest performers in the year (total return +18.4%). The company is making the transition away from generic drugs towards self-developed innovative drugs. CMS is also diversifying its business. In November, it presented its new drug to treat psoriasis (a skin condition), highlighting the gains made by CMS's relatively newer dermatology segment.

Zhejiang Supor (total return +10.8%) 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 due to the macroeconomic situation. Management aim to balance margins and growth by focusing on the premium end of the market.

Laggards

Hangzhou First Applied Material (total return -50.2%) and **Xinyi Solar** (total return -46.1%) were the weakest stocks in the Fund, driven by the general oversupply in the solar industry. First Applied is the world's largest manufacturer of solar film which is used to protect solar modules, while Xinyi Solar is the world's largest manufacturer of solar glass. Polysilicon prices have plummeted from their peak in 2022, leading to lower prices across the supply chain. Even though both First Applied's and Xinyi Solar's volumes have increased significantly this year, the fall in prices has moderated revenue growth. Earnings estimates have been cut significantly for both stocks, though the market is still expecting earnings growth for both companies. We continue to hold both stocks because they are conservatively financed and can weather weaker periods. We expect both to benefit as their weaker competitors eventually exit the market, as some are unprofitable at current prices.

JD.com (total return -47.7%) is one of China's largest e-commerce companies. It is struggling with the rise of Pinduoduo, which caters towards lower-income customers. Pinduoduo often subsidises its sales, which has forced JD.com to follow suit, lowering margins. JD.com is now in a tough spot – to cater towards its original higher-income consumers, it must continue to sell authentic high-quality products. But the lower-income

consumers that Pinduoduo targets are willing to pay for lower quality and cheaper products, which often are not genuine. If JD.com moves too far downmarket, it risks alienating its core customer base. It is difficult for JD.com to be all things for all customers, which is why its share price has struggled.

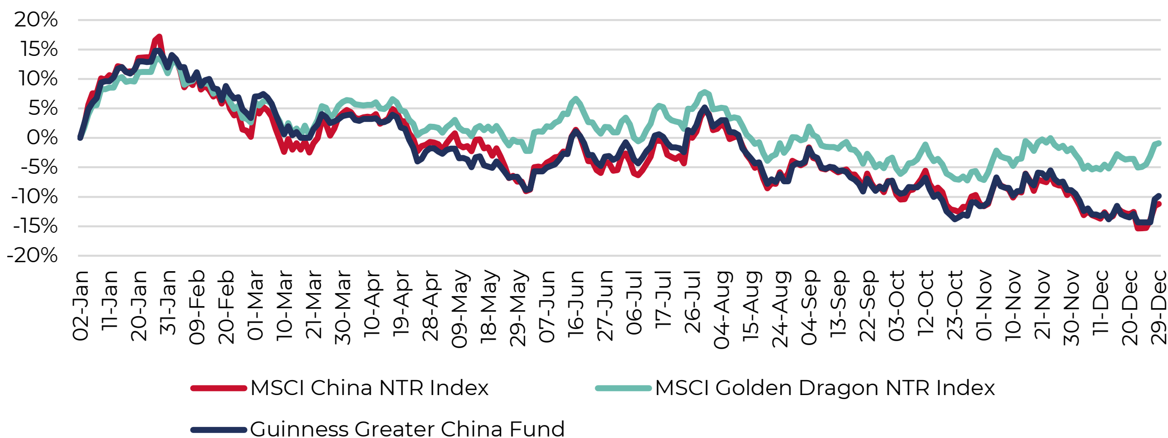
Wuxi Lead Intelligent Equipment (total return -37.2%) is a manufacturer of battery production equipment. With concerns over potential battery overcapacity in China, the market is paying attention to Lead Intelligent' s order book. We expect growth in the company's new orders to come from overseas, though whether they are booked in the fourth quarter of 2023 or 2024 is difficult to predict. We know Lead Intelligent has exposure to major customers abroad such as Volkswagen and ACC (a joint venture between Stellantis, Mercedes and TotalEnergies). CATL, which is one of the world's largest battery manufacturers, is the second largest shareholder in Lead Intelligent. Therefore we expect Lead Intelligent to benefit from CATL's new plant in Hungary.

China Merchants Bank (CMB) (total return -34.3%). The market is concerned over the asset quality of the bank given its exposures to property and local government financing vehicles, even though it has a solid track record in risk management and the largest capital buffer, which is over 5% above the regulatory requirement of all China's banks. As of the third quarter, 2.0% of assets were exposed to local government financing vehicles and c.3.9% of assets exposed to real estate. Additionally, the industry-wide cut to mutual fund fees is putting pressure on the bank's wealth management division.

ATTRIBUTION

In 2023, the Guinness Greater China Fund fell 9.9% (in US dollar terms) while the MSCI Golden Dragon Index fell 0.9% and the MSCI China Index fell 11.2%. Therefore, the Fund underperformed the MSCI Golden Dragon Index by 9.0% but outperformed the MSCI China Index by 1.3%.

Fund and Market Performance in 2023



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

Relative to the MSCI China Index, areas which helped the Fund's performance in 2023 were:

- Stock selection in Information Technology, driven by Elite Material (total return +128.7%), TSMC (+35.6%) and Venustech (+1.2%).

- Stock selection in Communication Services, driven by the overweight to NetEase and Baidu, which rose 30.6% and 4.1% respectively. An underweight in position Tencent, which fell 6.9% in 2023, also contributed to relative performance. The Fund, as an equally weighted portfolio, holds 3.2% in Tencent compared to an index weight of 14.6%.

- Stock selection in Health Care, driven by China Medical System (+18.4%) and not holding Wuxi Biologics, which fell 50.5%.

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

- Stock selection in Financials, driven by China Merchants Bank (–34.3%), AIA Group (–20.0%), Hong Exchanges & Clearing (-18.5%) and Ping An Insurance Group (-28.0%). The Fund also suffered from not holding the large SOE banks, which were outperformers as they benefited from the rotation into value. We do not hold them because they do not give exposure to the structural growth themes we target.

- Stock selection in Industrials, driven by Wuxi Lead Intelligent Equipment (–37.2%), Sany Heavy Industry (–14.4%) and Shenzhen Inovance (-11.2%).

- Underweight to Energy, where the Fund has no exposure, because of the lack of opportunities which give exposure to the structural growth themes we target.

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

- Stock selection in Health Care, driven by CSPC Pharmaceutical, China Medical System, Sino Biopharmaceutical and not holding Wuxi Biologics. CSPC Pharmaceutical received approval to conduct trials for a new self-developed drug targeting various cancers, as well as for a new covid mRNA vaccine. This boosted sentiment for the sector on the prospects of more pharmaceutical firms also conducting trials for self-developed drugs. China Medical System presented its new drug to treat psoriasis (a skin condition), highlighting the gains made by CMS's relatively newer dermatology segment.

- Stock selection in Consumer Discretionary, driven by not holding Meituan, Yum China, Li Ning and BYD, as well as the underweight to Alibaba and good performance from Zhejiang Supor and Shenzhou International.

- Stock selection in Communication Services, where the Fund benefited from its underweight to Tencent which fell on the unexpected draft rules covering the video gaming sector.

In the fourth quarter, relative to the MSCI China Index, areas which detracted from the Fund's relative performance were:

- Stock selection in Information Technology, driven by Xinyi Solar and Hangzhou First Applied Material. In addition, Elite Material gave back some of its gains after a very strong rally, but was still the strongest stock in the Fund for the year.

- Stock selection in Industrials, driven by Sany Heavy Industry, Wuxi Lead Intelligent Equipment, Shenzhen Inovance and Nari Technology.

- Stock selection in Financials, driven by China Merchants Bank, Hong Exchanges & Clearing and Ping An Insurance Group. The Fund also suffered from not holding the large SOE banks which were outperformers – we do not hold them because they do not give exposure to the structural growth themes we target.

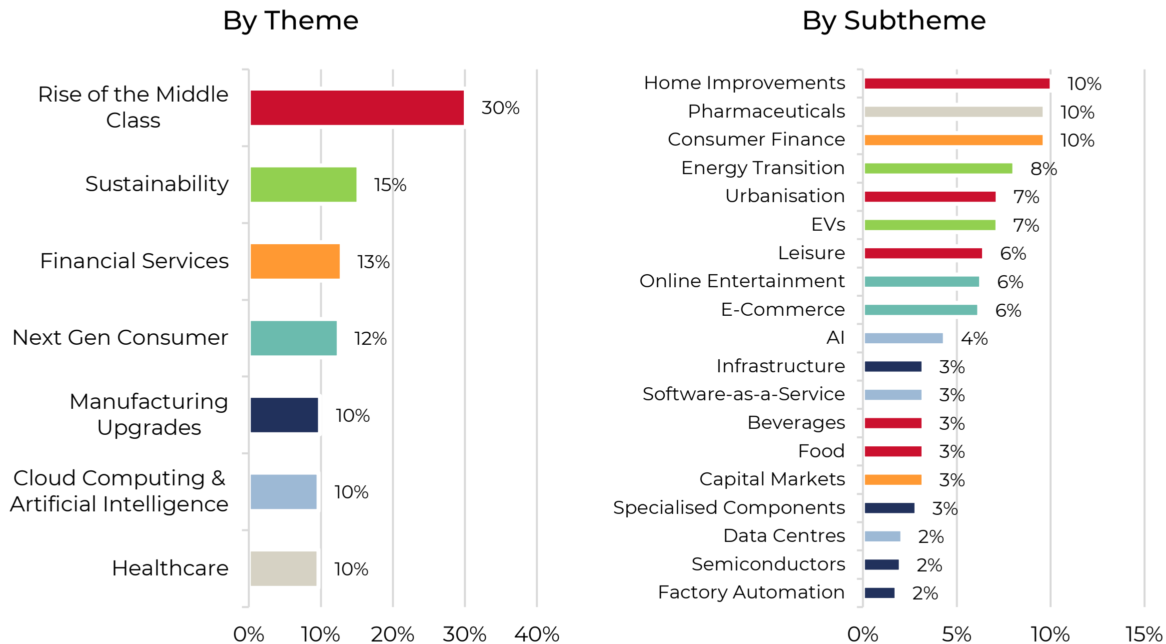
PORTFOLIO CHANGES

In the first quarter we bought **TravelSky**, which provides services used for flight bookings such as ticket pricing, reservation and inventory systems and airport passenger processing. It also operates a centralised settlement service between airlines and travel agents. Now that China has moved on from its zero-covid policy, we are expecting a large rebound in both outbound and inbound tourism, which is likely to bode well for TravelSky.

We sold **Shengyi Technology**, which makes copper clad laminates (CCLs) for printed circuit boards (PCBs). Given weaker global demand for consumer technology, the earnings outlook for the business had deteriorated. On a total return basis, the prospects for TravelSky were more attractive.

PORTFOLIO POSITIONING

By theme, the Fund's largest exposures are to the Rise of the Middle Class, followed by Sustainability and Financial Services. Important subthemes include Home Improvements, Pharmaceuticals, Consumer Finance and Energy Transition.

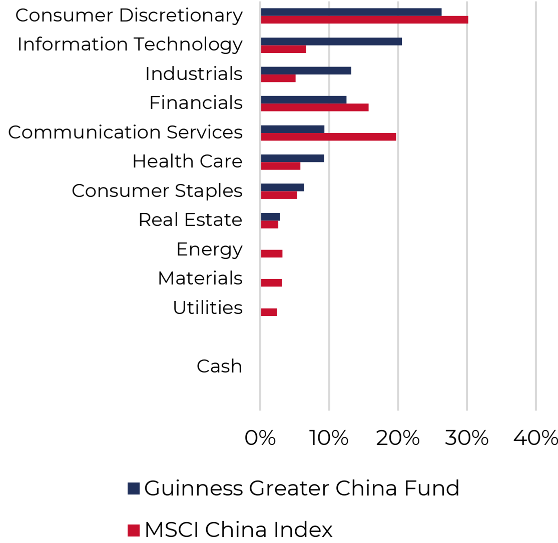


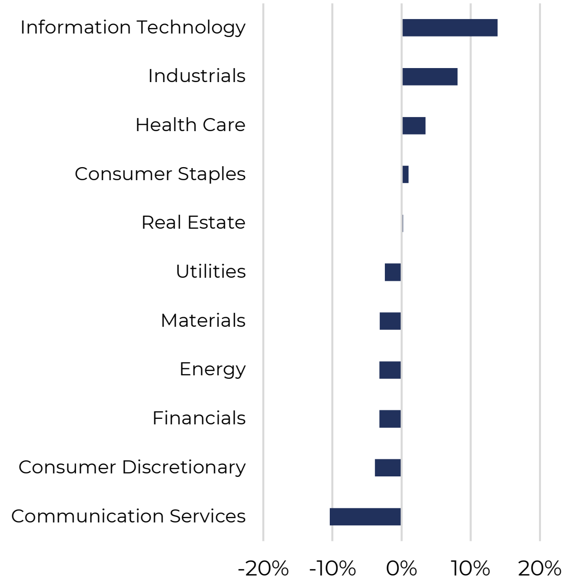
(Data as of 31/12/23, source: Guinness Global Investors calculations. Data assumes portfolio is equally weighted; in practice, weightings vary due to market movement)

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

- Cybersecurity – Venustech, one of China's largest providers of cybersecurity services.
- Solar – Xinyi Solar, world's largest supplier of glass used in solar panels; Hangzhou First Applied, world's largest supplier of solar film.
- Semiconductors – TSMC, the world's largest foundry business.

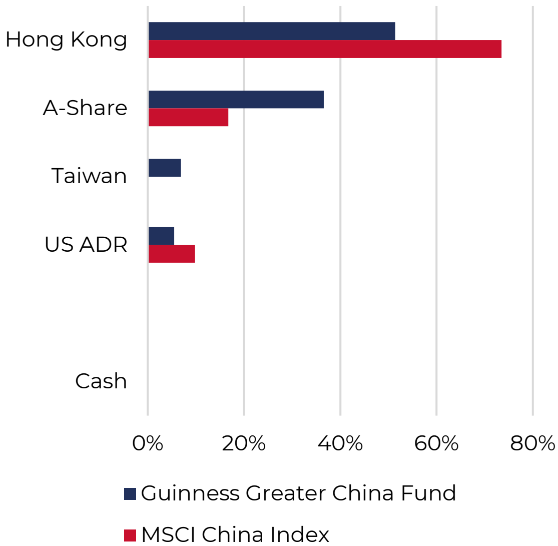
- Copper clad laminates (CCLs) – Elite Material, which gives exposure to artificial intelligence, smartphones and servers.
- Controllers and IoT – H&T Intelligent, which gives exposure to household appliances and power tools.

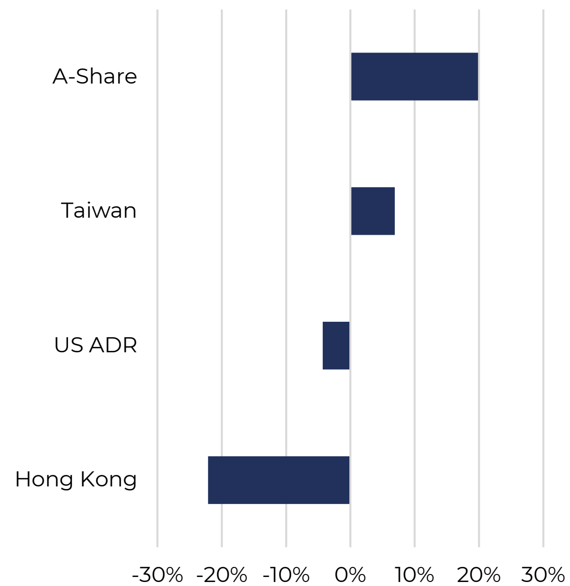




(Data as of 31/12/23, source: Guinness Global Investors calculations, Bloomberg)

On a listing basis, the Fund has 51% exposure to stocks listed in Hong Kong, 37% exposure to the A share market and a small 7% allocation to Taiwan.



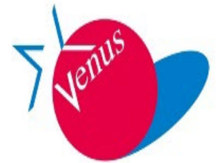


(Data as of 31/12/23, source: Guinness Global Investors calculations, Bloomberg)

TRIP TO CHINA

In May, we travelled to China to visit some of the holdings in the both the Guinness Greater China Fund and the Guinness China A Share 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 Greater China 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.

On ESG, **CMS**'s disclosure is relatively good and so our main suggestion related to capital management. Like many companies listed in Hong Kong, CMS asks shareholders for the right to issue shares without pre-emptive rights up to a limit of 20% of the issued share capital. We feel 20% is excessive and can encourage undisciplined capital raising. CMS was open to lowering the limit, for which we said 10% was more reasonable.

OUTLOOK

Structural Growth Themes

To summarise key developments in certain structural growth themes:

Sustainability: 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 our companies (Xinyi Solar and Hangzhou First Applied Material), with their strong balance sheets and leading global market share, to benefit as their weaker competitors exit the industry. We expect more stable prices to lead to strong earnings growth in 2024.

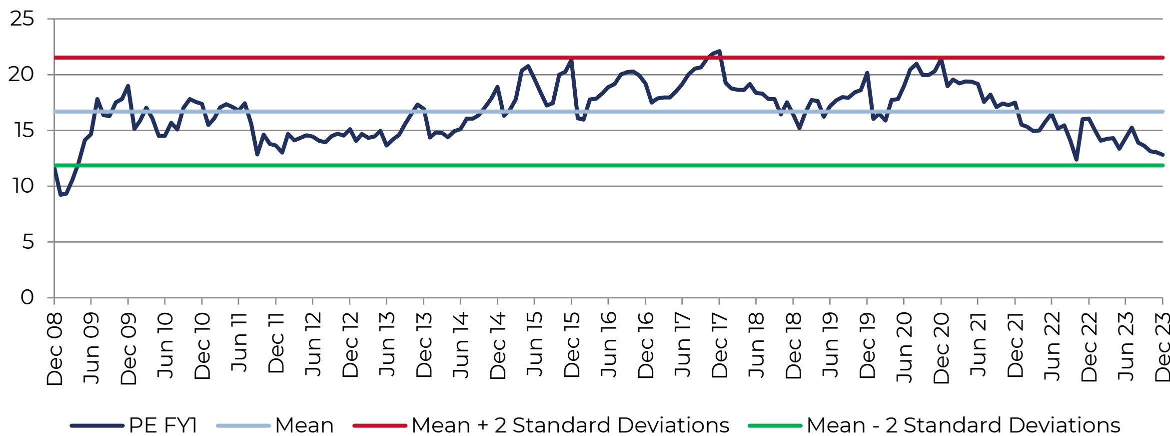
As China continues to expand its electricity grid to accommodate its investments in renewable energy, we expect continued growth for Nari Technology, which manufactures both hardware and software for the national grid.

Cloud Computing and AI: Our Taiwanese holdings give the Fund exposure to rising global demand for generative AI, whereas our mainland Chinese holdings give the Fund specific exposure to rising demand in China. In Taiwan, Elite Material currently has very high market share in Nvidia projects and is currently well ahead of its competition. While we expect that over time Elite's market share in AI dedicated servers will moderate, we still expect it to be one of the leading firms in the industry. TSMC gives the Fund exposure to one of the only foundries in the world that can produce the cutting-edge chips needed for dedicated AI servers. Both Elite and TSMC should see an earnings boost in 2024 from greater demand for generative AI.

Healthcare: In response to government mandated price cuts for generic drugs, our pharmaceutical holdings have seen earnings growth slow down over the past few years. Pricing power is much greater for innovative drugs and so our holdings have been building up their pipeline of novel drugs. We expect that for some of our companies, the pipeline may start to deliver in 2023. China Medical System (CMS) won approval from the regulator for three treatments in 2023 which are expected to contribute to revenue in 2024. The company expects to launch another six products in the coming years. CSPC Pharmaceutical is expecting growth to accelerate in 2024, driven by new product launches targeting oncology and respiratory treatments. We believe that at current prices, the market is assigning essentially no value to future cashflows arising from these companies' pipelines, making them attractive investment propositions.

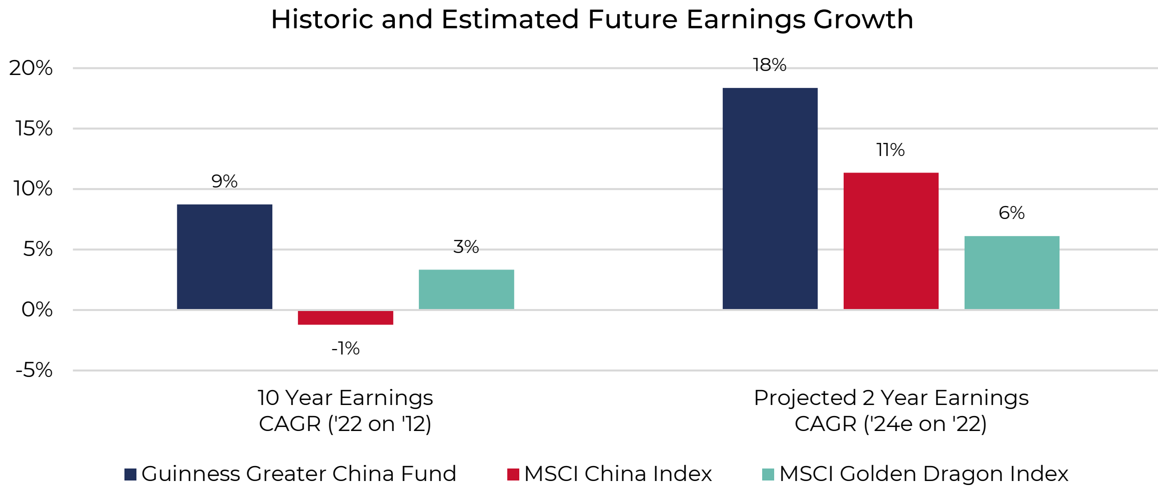
The Case for China Today

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 allocating to China and specifically the Guinness Greater China Fund.



(Data from 31/12/08 to 31/12/23, source: Bloomberg, Guinness Global Investors. 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. While we normally show the past 10 years of history, we now show the past 15 years to get a longer look at the historic valuations of our holdings. This must be viewed with one caveat, however – not all of our holdings were listed in 2008, and of those that that were, some did not have analyst coverage. With this in mind, it is clear that the Fund's holdings, which trade at a forward price/earnings ratio of 12.8x, are trading at close to two standard deviations below their 15-year average. This is despite the fact the Fund has minimal exposure to the areas that investors are most cautious on China: real estate and the banks. Our holdings' valuations are being dragged down by the 'China' discount, despite their strong track record of earnings growth across various economic environments.



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 9% a year. If we exclude 2022 because of China's zero-covid controls, the long-term growth rate in earnings was 12% a year. This compares favourably to the MSCI China Index, where earnings have actually contracted by 1% a year over the past decade. Based on consensus analyst estimates, the Fund's holdings in aggregate are expected to grow earnings by 20% in 2023, 17% in 2024 and 15% 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. At current valuations, we consider the Fund represents outstanding value to investors for the growth on offer.

Though the Fund does not have a distribution share class, the expected 2023 dividend yield of our companies is 2.5%. In summary, we argue that 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.

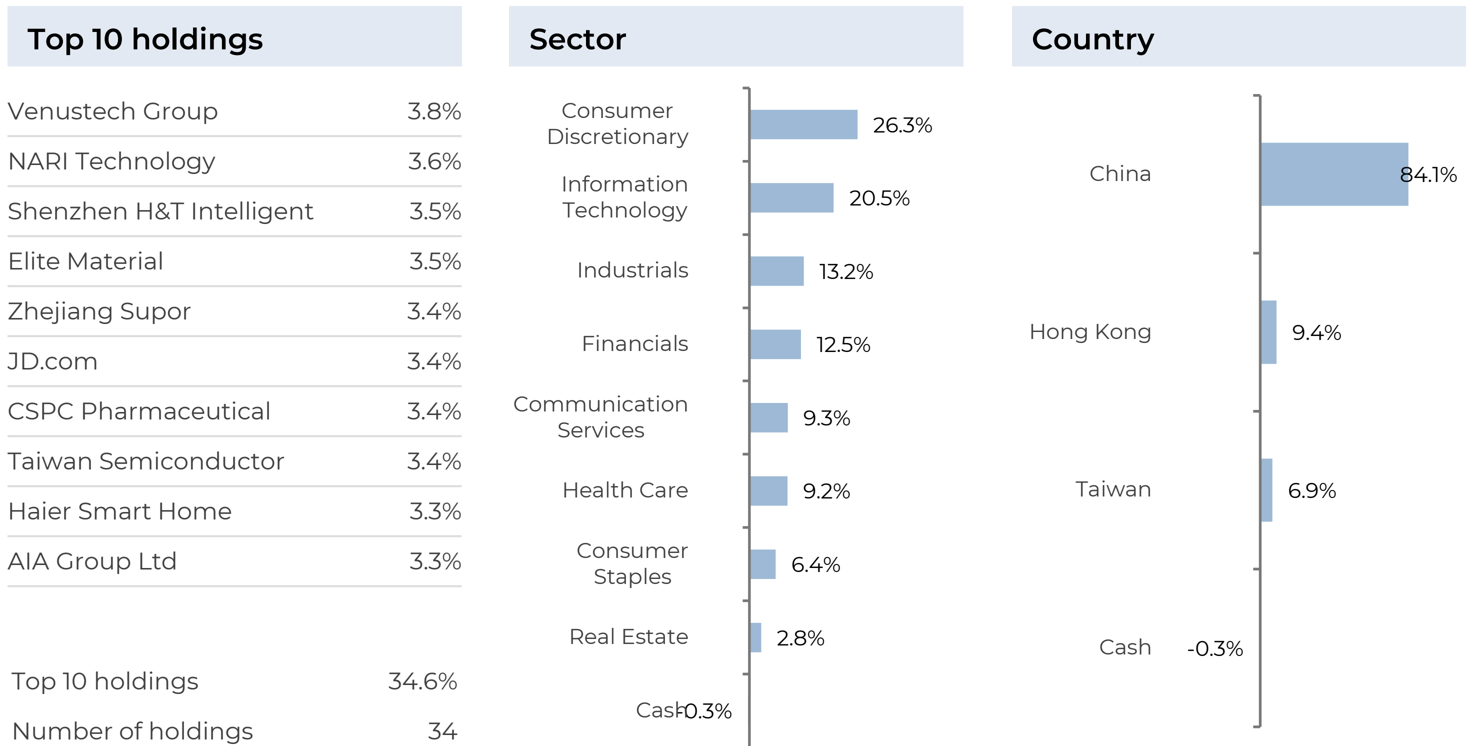
Portfolio Managers

Sharukh Malik
Edmund Harriss

GUINNESS GREATER CHINA FUND - FUND FACTS

Fund size	$7.5m
Fund launch	15.12.2015
OCF	0.89%
Benchmark	MSCI Golden Dragon TR

GUINNESS GREATER CHINA FUND - PORTFOLIO



Top 10 holdings

Venustech Group	3.8%
NARI Technology	3.6%
Shenzhen H&T Intelligent	3.5%
Elite Material	3.5%
Zhejiang Supor	3.4%
JD.com	3.4%
CSPC Pharmaceutical	3.4%
Taiwan Semiconductor	3.4%
Haier Smart Home	3.3%
AIA Group Ltd	3.3%

Top 10 holdings	34.6%
Number of holdings	34

GUINNESS GLOBAL INVESTORS

Past performance does not predict future returns.

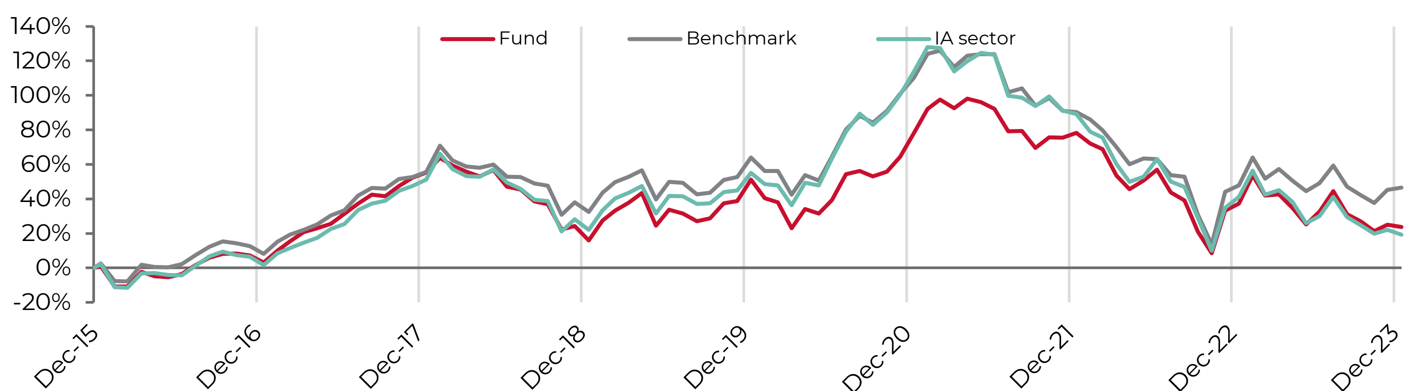
GUINNESS GREATER CHINA FUND - CUMULATIVE PERFORMANCE

(GBP)	1 Month	YTD	1 yr	3 yr	5 yr	10 yr
Fund	-1.8%	-15.0%	-15.0%	-25.5%	+6.7%	-
MSCI Golden Dragon TR	+0.2%	-6.5%	-6.5%	-25.3%	+10.4%	-
IA China/Greater China TR	-3.0%	-20.2%	-20.2%	-40.1%	-2.3%	-
(USD)	**1 Month**	**YTD**	**1 yr**	**3 yr**	**5 yr**	**10 yr**
Fund	-1.1%	-9.9%	-9.9%	-30.5%	+6.8%	-
MSCI Golden Dragon TR	+0.9%	-0.9%	-0.9%	-30.3%	+10.5%	-
IA China/Greater China TR	-2.3%	-15.4%	-15.4%	-44.2%	-2.2%	-
(EUR)	**1 Month**	**YTD**	**1 yr**	**3 yr**	**5 yr**	**10 yr**
Fund	-2.3%	-12.9%	-12.9%	-23.0%	+10.5%	-
MSCI Golden Dragon TR	-0.3%	-4.3%	-4.3%	-22.8%	+14.4%	-
IA China/Greater China TR	-3.5%	-18.3%	-18.3%	-38.2%	+1.2%	-

GUINNESS GREATER CHINA FUND - ANNUAL PERFORMANCE

(GBP)	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Fund	-15.0%	-13.3%	+1.0%	+14.2%	+25.3%	-20.7%	+37.6%	+22.1%	-	-
MSCI Golden Dragon TR	-6.5%	-12.6%	-8.6%	+24.2%	+19.0%	-9.5%	+31.3%	+25.7%	-	-
IA China/Greater China TR	-20.2%	-16.0%	-10.7%	+33.6%	+22.2%	-14.2%	+35.9%	+18.5%	-	-
(USD)	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Fund	-9.9%	-23.0%	+0.1%	+17.9%	+30.4%	-25.3%	+50.4%	+2.3%	-	-
MSCI Golden Dragon TR	-0.9%	-22.3%	-9.5%	+28.2%	+23.8%	-14.8%	+43.8%	+5.4%	-	-
IA China/Greater China TR	-15.4%	-25.4%	-11.5%	+37.8%	+27.1%	-19.2%	+48.7%	-0.7%	-	-
(EUR)	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Fund	-12.9%	-17.9%	+7.7%	+8.1%	+32.8%	-21.5%	+32.3%	+5.5%	-	-
MSCI Golden Dragon TR	-4.3%	-17.3%	-2.6%	+17.6%	+26.1%	-10.5%	+26.3%	+8.6%	-	-
IA China/Greater China TR	-18.3%	-20.5%	-4.8%	+26.4%	+29.4%	-15.1%	+30.6%	+2.3%	-	-

GUINNESS GREATER CHINA FUND - PERFORMANCE SINCE LAUNCH (USD)



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 Greater 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. 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.