

Guinness Best of China Fund

Investment Commentary - June 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



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

31/05/2022	1 year	3 years	5 years	Launch*
Fund	-13.6	21.1	23.2	80.2
Index	-17.7	17.0	28.4	95.1
Sector	-23.2	16.3	27.7	82.5

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

*Launch: 15.12.2015. Investors should note that fees and expenses are charged to the capital of the Fund. This reduces the return on your investment by an amount equivalent to the Ongoing Charges Figure (OCF). The fund performance shown has been reduced by the current OCF of 0.89% per annum. Returns for share classes with a different OCF will vary accordingly. The performance returns do not reflect any initial charge; any such charge will also reduce the return.

SUMMARY

In May, the Guinness Best of China Fund rose 3.1% while the benchmark, the MSCI Golden Dragon Net Total Return Index, rose 1.7%, and the MSCI China Net Total Return Index rose 0.8%. In the last 12 months, the Fund has fallen 13.6% while the MSCI Golden Dragon Index has fallen 17.7% and the MSCI China Index has fallen 27.7%. (All figures in GBP).

The lockdown in Shanghai was lifted while Beijing seems to have avoided the same fate. Covid cases are moving in the right direction, which is good for the economy, but China remains committed to its zero-Covid policy. Therefore we expect to continue to see outbreaks across the country which will have implications for the economy.

Policymakers released further details on stimulus which included tax rebates worth CNY 140 billion (bn) and a deferral of social security premium payments worth CNY 320bn. Our view is that though the loosening of fiscal policy is encouraging, many of the policies are focused on the supply side and so encourage an increase in investment and production. Consumption growth has lagged production growth since Covid started because the government has mostly focused on supply-side stimulus. Therefore, we would like the government to announce more consumption-boosting policies which would also have the effect of increasing consumption's share of economic growth.

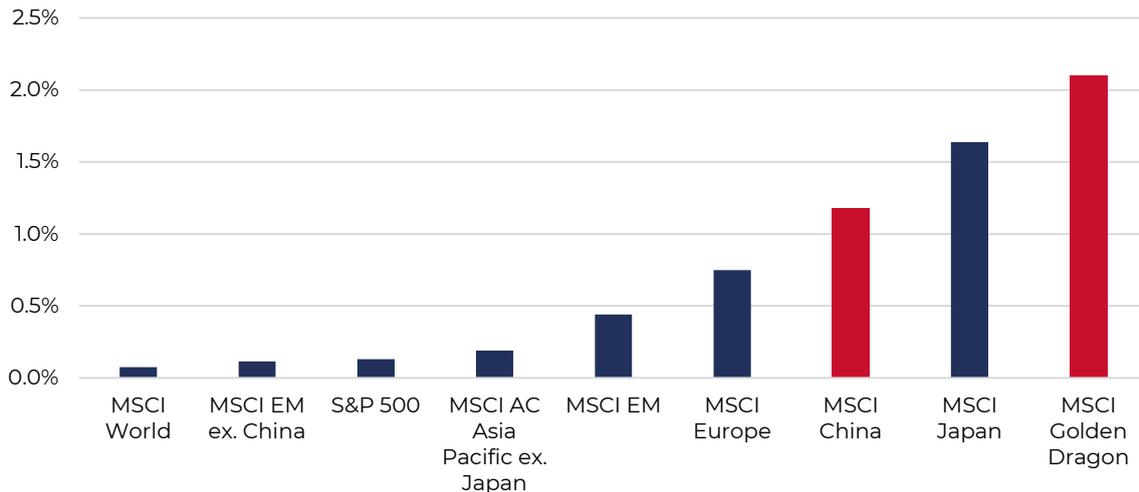
The NBS Purchasing Managers Index (PMI), which is more geared towards state-owned firms, rose from 47.4 in April to 49.6 in May. The Caixin PMI, which is more geared towards private firms, rose from 46.0 in April to 48.1 in May. These data points indicate a recovery in economic activity compared to April, though since both are below 50, they still indicate weak economic activity.

The five-year loan prime rate was cut by 0.15% to 4.45%, lowering the cost of mortgages. Banks are now also allowed to offer a further 0.20% below the benchmark rate, meaning an effective 0.35% cut in mortgage rates. Given new home prices fell for the first time in many years, it is no surprise policymakers are loosening credit towards the property sector. This cut follows individual cities lowering home purchase restrictions and down payment requirements.

MARKET COMMENTARY

Chinese markets rose by 1.2% in May (in USD), but the month really had two phases. In the first half, Chinese markets had fallen by as much as 10.0% as Shanghai was still in lockdown and fears were building that Beijing would follow. However, as Covid case rates began to improve and further economic stimulus was announced, markets rebounded over the rest of the month, meaning Chinese markets rose in May.

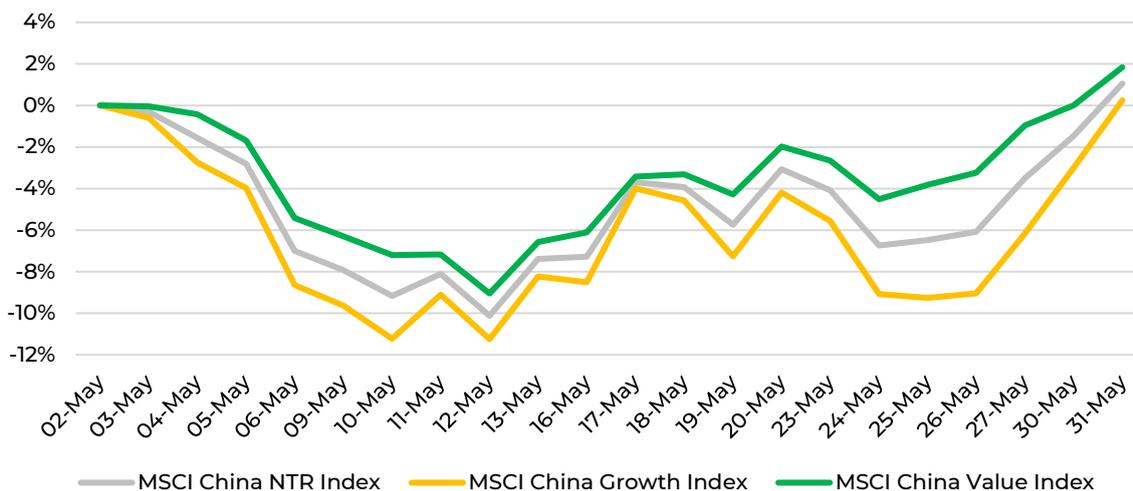
Returns by Market in May 2022



(Data from 30/04/22 to 31/05/22, returns in USD, source: Bloomberg, Guinness Global Investors calculations)

In May, value stocks performed better than growth stocks, as the MSCI China Value Index rose 1.8% while the Growth Index rose by 0.3%.

Growth vs Value in May 2022

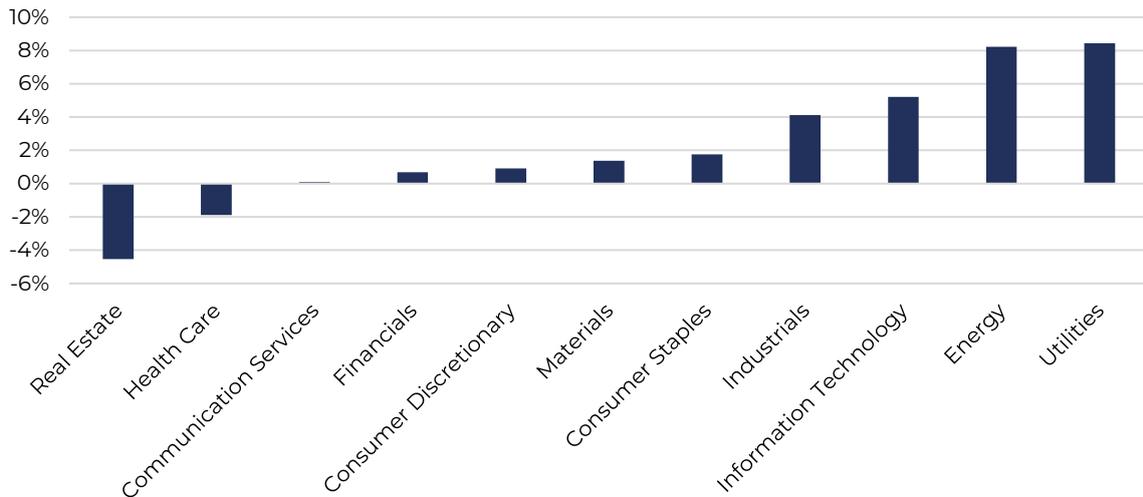


(Data from 30/04/22 to 31/05/22, returns in USD, source: Bloomberg, Guinness Global Investors calculations)

The strongest sectors were Utilities, Energy and Information Technology. The weakest were Real Estate, Health Care and Communication Services. Within Energy, coal companies were strong due to rising coal prices for the export market. Real Estate names were soft as government support for the sector was weaker than expected.

Guinness Best of China Fund

Returns by Sector for MSCI China in May



(Data from 30/04/22 to 31/05/22, returns in USD, source: Bloomberg, Guinness Global Investors calculations)

COMPANY UPDATES

Geely is a well-known automobile manufacturer whose parent company also owns Volvo. Management do not expect production to reach capacity until the first week of June, mostly due to issues with its smaller suppliers. The company was expecting the government to cut the purchase tax for automobiles priced up to RMB 120k, but the government extended the tax cut to cars costing up to 300k. This was a positive surprise as it is likely to boost sales for a greater number of cars, leading to a rally in Geely's share price.

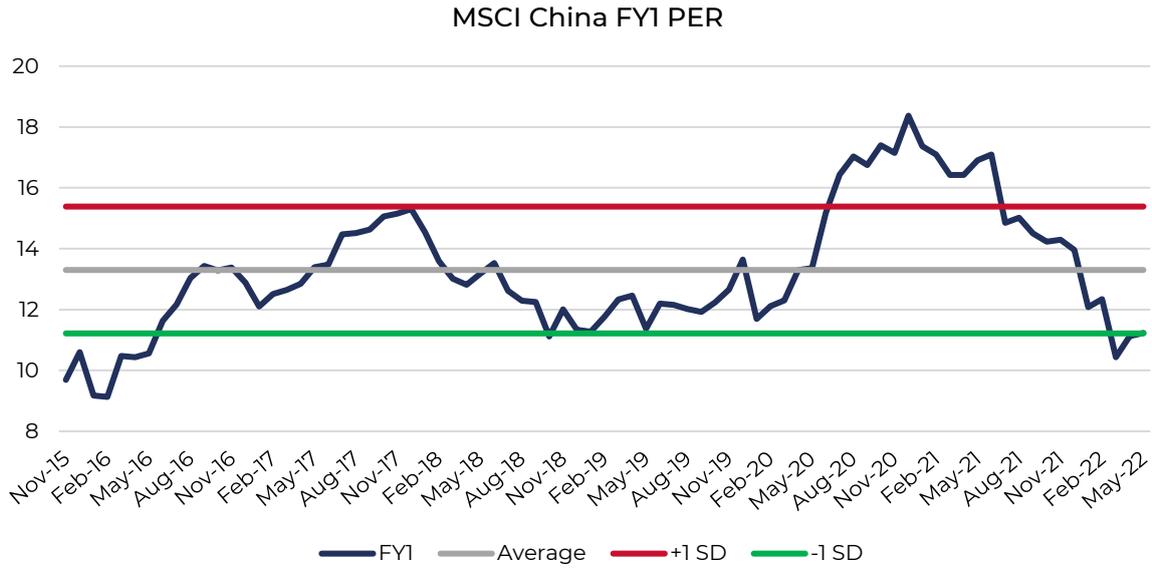
Despite the lockdowns, Inovance is still targeting revenue growth of 25-50% in 2022, with growth spread across the industrial automation, electric vehicle components and industrial robots segments. Management say demand in April and May was solid despite the macro headwinds as weakness from traditional sectors was offset by strength in renewable energy and advanced manufacturing clients. Like we saw with the first lockdown in 2020, Inovance is performing better than its foreign competitors in the Chinese market as its better execution is leading to better delivery rates.

OUTLOOK

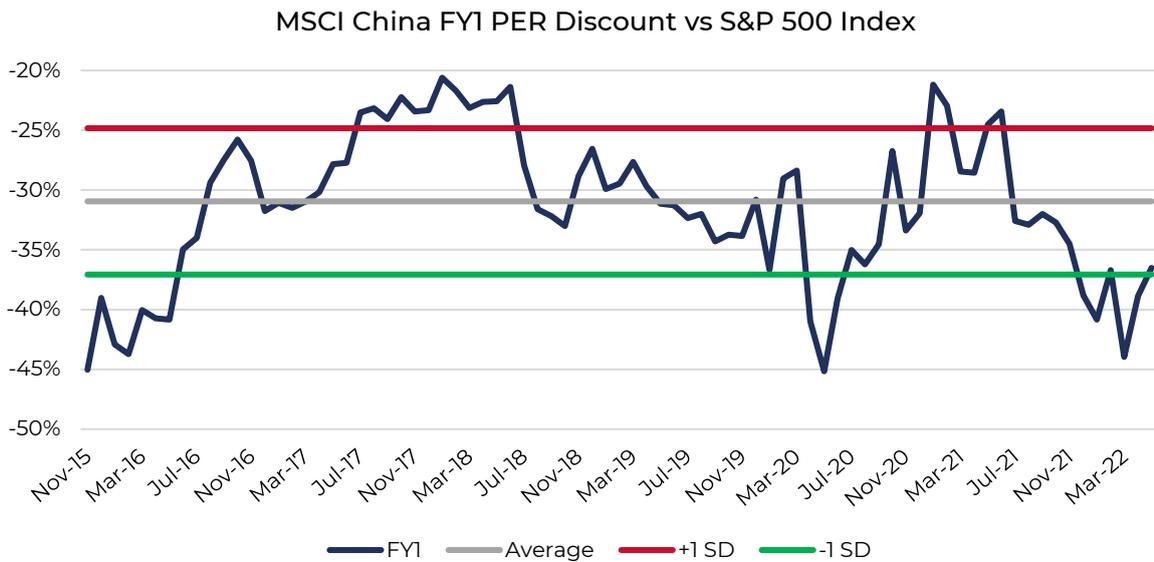
As of early June, there has been an uptick in investor interest in China. A potential end to the probe into Didi (the Chinese equivalent of Uber), allowing the company to sign up new users, improved sentiment towards Chinese stocks. This was followed by the next batch of approval for video games, leading to a rally for the Internet stocks. The Fund's exposure to these rallies comes through e-commerce (Alibaba and JD.com), video games (Tencent and Netease) and search (Baidu).

We think China remains attractive from an investment point of view. One reason is the supportive risk-reward ratio. The country trades on 11.2x on a one year forward price earnings ratio, which is one standard deviation below the average since 2015. One may fairly argue that China often trades at a discount to the US, so we also show below MSCI China's historical discount to the S&P 500. It remains significant at 37%, levels which last persisted in late 2015 and early 2016, which was a similarly bearish period for China. Expectations, in our view, are undemanding for Chinese equities and so positive surprises are likely to be well received.

Guinness Best of China Fund



(Data from 30/04/22 to 31/05/22, returns in USD, source: Bloomberg, Guinness Global Investors calculations)



(Data from 30/04/22 to 31/05/22, returns in USD, source: Bloomberg, Guinness Global Investors calculations)

Portfolio Managers

Edmund Harriss

Sharukh Malik

Guinness Best of China Fund

PORTFOLIO

Fund top 10 holdings

NetEase	3.7%
Zhejiang Supor	3.7%
Geely Automobile Holdings	3.6%
Xinyi Solar	3.5%
SHENZHEN H&T INTELLIGENT-A	3.4%
Sino Biopharmaceutical	3.3%
Suofeiya Home Collection	3.3%
NARI Technology	3.2%
Wuxi Lead Intelligent Equipment	3.2%
Haier Smart Home	3.2%

% of Fund in top 10	34.0%
Total number of stocks	33

Sector analysis

Information Technology	24.3%
Cons. Discretionary	24.1%
Industrials	11.7%
Financials	11.1%
Communication Services	9.7%
Health Care	9.1%
Consumer Staples	5.7%
Real Estate	2.9%
Cash	1.4%

Geographic allocation

China	81.5%
Hong Kong	8.7%
Taiwan	8.4%
Cash	1.4%

PERFORMANCE

Past performance does not predict future returns

31/05/2022

Annualised % total return from launch (GBP)

Fund (Y Class, 0.89% OCF)	9.5%
MSCI Golden Dragon Index	10.9%
IA China/Greater China sector average	9.8%

Discrete years % total return (GBP)	May '22	May '21	May '20	May '19	May '18	May '17
Fund (Y Class, 0.89% OCF)	-13.6	30.0	7.7	-16.0	21.2	49.7
MSCI Golden Dragon Index	-17.7	29.2	9.9	-7.7	19.0	46.5
IA China/Greater China sector average	-23.2	32.1	14.7	-11.6	24.2	44.2

Cumulative % total return (GBP)	1 Yr	3 Yrs	5 Yrs	Launch
Fund (Y Class, 0.89% OCF)	-13.6	21.1	23.2	80.2
MSCI Golden Dragon Index	-17.7	17.0	28.4	95.1
IA China/Greater China sector average	-23.2	16.3	27.7	82.5

RISK ANALYSIS

31/05/2022

Annualised, weekly, from launch on 15.12.15, in GBP	Index	Sector	Fund
Alpha	0.00	-0.84	-0.53
Beta	1.00	0.99	0.98
Information ratio	0.00	-0.21	-0.13
Maximum drawdown	-30.24	-37.41	-28.06
R squared	1.00	0.92	0.85
Sharpe ratio	0.38	0.30	0.27
Tracking error	0.00	5.13	7.31
Volatility	17.92	18.38	18.98

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'Île, 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.