Guinness Best of China Fund

INVESTMENT COMMENTARY – December 2020

Launch date	**15.12.15**
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Aim

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.

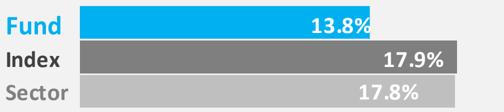
Performance (in GBP) 30.11.2020

Fund	Best of China Fund (Z Cls, 0.74% OCF)
Index	MSCI Golden Dragon
Sector	IA China/Greater China

	2019	2018	2017
Fund	26.0	-20.3	38.2
Index	19.0	-9.5	31.3
Sector	22.2	-14.2	35.9

	1 year	3 years	From launch
Fund	15.3	11.1	90.2
Index	27.5	33.5	126.5
Sector	34.0	37.7	125.7

Annualised % total return from launch (GBP)



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0.0	-0.2	-3.5
Beta	1.0	1.0	1.0
Info ratio	0.0	-0.1	-0.6
Max drwdn	-17.8	-21.7	-25.7
Tracking err	0	5	6
Volatility	17.5	17.8	18.8
Sharpe ratio	0.8	0.8	0.6

Past performance should not be taken as an indicator of future performance. The value of this investment and any income arising from it can fall as well as rise as a result of market and currency fluctuations.

Source: Financial Express, bid to bid, total return 0.74% OCF. Returns for share classes with a different OCF will vary accordingly

Fund & Market

- In November, the Best of China Fund rose 5.4% (in USD, Z class) while the MSCI Golden Dragon Net Total Return Index rose 5.2%.
- MSCI China rose 2.8%, MSCI Hong Kong rose 11.2% and MSCI Taiwan rose 10.0%. The Shenzhen Component Index rose 5.1% while the Shanghai Stock Exchange Composite Index rose 7.0%.
- MSCI China Value rose 10.3% while MSCI China Growth fell 2.4%.
- In MSCI China, the strongest sectors were Materials (total return of +14.9%), Energy (+14.7%) and Financials (+12.4%) while the weakest were Communication Services (-2.7%), Consumer Discretionary (-0.9%) and Health Care (+1.4%).
- In MSCI Hong Kong, the Real Estate and Financials indexes rose 14.1% and 12.7% respectively.
- In Taiwan, the Information Technology Index, which makes up more than half of the local index, rose 10.8%.
- Meanwhile the S&P 500 rose 10.9%, MSCI Europe rose 17.0% and MSCI Japan rose 12.5%.

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Events in November

- Positive data came out from various Covid-19 trials. The BioNTech/Pfizer vaccine prevented 90%+ of trial participants from getting Covid-19. A week later, Moderna's results showed 95% of participants were protected. The Oxford vaccine can be up to 90% effective if given in two doses. This news led to a rally in stocks which are deemed to benefit from the rollout of the vaccines and a return to normal life. Therefore, the more cyclical stocks in the value index had a much better month than many of the stocks in the growth index.

- Biden won the US election while Congress could possibly be split, meaning there is likely to be considerable restraint on the policies he can push through. Biden has already indicated that he will not remove tariffs on Chinese exports and is instead prioritising a stimulus package for the domestic economy.

- President Trump added SMIC and CNOOC to a list of companies alleged to be owned or controlled by the Chinese military. From next year, US investors will not be allowed to buy the shares of companies on this list.

- Policymakers released their recommendation for the 14th Five-Year-Plan. They are recommending that GDP per capita should double by 2035 which means it needs to grow at an average of 4.7% over the next 15 years. The dual circulation strategy was further promoted, which is policymakers' latest way of saying domestic demand needs to increase. This is necessary if China is to shift away from a predominantly debt-funded economy towards a more sustainable, lower growth economy.

- The Caixin manufacturing Purchasing Managers' Index (PMI) rose from 53.0 in September to 53.6 in October, indicating expanding activity. Meanwhile, the NBS PMI, which is geared towards state owned enterprises (SOEs), remained high at 51.4, also indicating healthy economic activity.

- Consumer price inflation fell slightly to 0.5% in October, driven by lower pork prices. Producer price inflation was 2.1%.

Portfolio Performance

In November, the top and bottom five contributors to performance are shown below:

Top 5 Contributors	Top 5 Detractors
Underweight in Alibaba (+1.4%)	Nio (-0.5%) (not held)
Geely (+1.1%)	AIA (-0.4%) (not held)
Haier Electronics (+0.8%)	Pinduoduo (-0.3%) (not held)
Sany Heavy Industry (+0.6%)	CSPC Pharmaceutical (-0.2%)
China Merchants Bank (+0.6%)	China Construction Bank (-0.2%) (not held)

Attribution relative to a portfolio holding the weighted average of the iShares MSCI China ETF, iShares MSCI Hong Kong ETF and iShares MSCI Taiwan ETF.

Ant Group's (*n.b*. not a portfolio holding) public listing was indefinitely suspended. A few weeks before the planned listing, Jack Ma, the company's largest shareholder, gave a speech at the Bund Summit where he criticised various aspects of China's financial system. He argued the banks operate with a "pawnshop" mentality that negatively affects entrepreneurship. He also argued that that regulators are too academic which can stifle innovation, especially in the field Ant happens to operate in. The speech was not well-received and Ant's management were called in for a meeting with the regulators, where new draft rules on microlending were released. The rules limit the amount of credit that lenders like Ant can lend and forces the lender to hold 30% of the capital in reserve. The latter requirement means Ant can no longer be viewed as an asset-light platform and so significantly impacts the case for holding the company.

Soon after, a consultation paper was released covering anti-trust activities on Internet platforms. The rules seek to restrict platform exclusive deals, under which merchants have to decide between two different platforms to list their goods on. The regulator seems keen to stamp out persistent periods of pricing below cost, in markets where one company dominates, in order to allow competitors to enter the market. The publication of the draft rules led to a sell-off in the large-cap Internet companies such as **Tencent, Alibaba** and **JD.com**. During the sell-off, which lasted two days, the index fell 2.4% while the Fund fell 0.2%, outperforming by 2.2%. The Fund's equally weighted process meant it suffered less when Tencent and Alibaba, the two largest stocks in the index by far, fell by 6.6% and 11.6%.

Haier Electronics released an operational update showing growth in sales across the washing machine, water heater and water purifier businesses. Haier's brand *Casarte* continues to benefit from its positioning as a higher-end product, with sales growth continuing to be strong. We now expect that in December, Haier Electronics should be privatised by its parent company, Haier Smart Home. In exchange for our shares in Haier Electronics, we will receive shares in Haier Smart Home which will commence trading in Hong Kong. Owning the parent company should give us greater exposure to the rest of Haier's business, including fridges, kitchen appliances, air conditioners and the overseas business.

Sany Heavy Industry reported good results, with 50%+ growth in both revenue and net profit. Domestic sales are driving growth while overseas sales have been a drag, though management is seeing a visible recovery in South East Asia. The company has a positive outlook over the medium term, driven by greater fixed asset investment in China and strong replacement demand due to stricter emission standards.

Summary view & outlook

The focus this year has been selling companies where either the competitive advantage has been lost or the prospect of earnings growth is unlikely. We have been buying companies where we feel there are structural growth opportunities present. These growth areas include e-commerce (JD.com), infrastructure stimulus (Yuhong and Sany), cybersecurity (Venustech), electric vehicles (Wuxi Lead) and consumption upgrades (Supor and Suofeiya).

Though we have made many switches this year, our aim is to continue to shift the Fund towards structural growth areas. The opportunity set includes industries such as electric vehicles, renewable energy, healthcare and import substitution. We expect to make more changes to move the fund to some of these structural growth areas.

Edmund Harriss (portfolio manager)
Mark Hammonds, CFA (analyst)
Sharukh Malik, CFA (analyst)

Data sources

Fund performance: *Financial Express, total return 0.74% OCF in GBP*

Index and stock data: *Bloomberg*

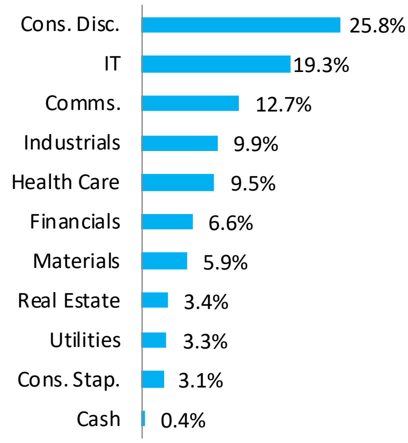
PORTFOLIO

30/11/2020

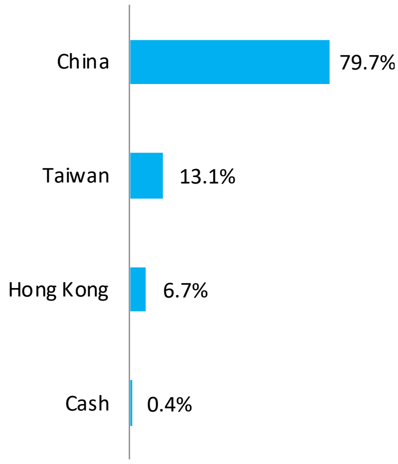
Fund top 10 holdings

Alibaba Group	3.5%
Taiwan Semiconductor	3.5%
Sino Biopharmaceutical	3.4%
NARI TECHNOLOGY CO LTD	3.4%
China Overseas Land	3.4%
Novatek Microelectronics	3.4%
Tencent Holdings	3.4%
JD.com	3.3%
Ping An Insurance	3.3%
China Merchants Bank	3.3%
% of Fund in top 10	34.0%
Total number of stocks	31

Sector analysis



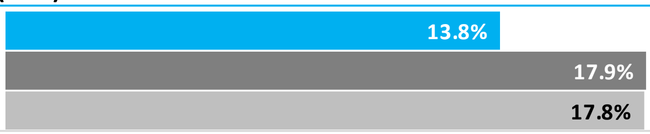
Geographic allocation



PERFORMANCE

30/11/2020

Annualised % total return from launch (GBP)



Discrete years % total return (GBP)	Nov '20	Nov '19	Nov '18	Nov '17	Nov '16
Fund (Z Class, 0.74% OCF)	15.3	10.7	-12.9	22.7	-
MSCI Golden Dragon Index	27.5	9.2	-4.1	25.2	31.2
IA China/Greater China sector average	34.0	11.4	-7.7	27.8	24.7

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Z Class, 0.74% OCF)	2.2	8.4	15.3	11.1	-	90.2
MSCI Golden Dragon Index	1.8	21.6	27.5	33.5	119.2	126.5
IA China/Greater China sector average	2.1	28.1	34.0	37.7	119.5	125.7

RISK ANALYSIS

30/11/2020

Annualised, weekly, from launch on 15.12.15, in GBP	Index	Sector	Fund
Alpha	0.00	-0.20	-3.50
Beta	1.00	0.98	1.01
Information ratio	0.00	-0.13	-0.56
Maximum drawdown	-17.78	-21.67	-25.74
R squared	1.00	0.94	0.89
Sharpe ratio	0.84	0.79	0.56
Tracking error	0.00	4.52	6.34
Volatility	17.49	17.75	18.77

Past performance should not be taken as an indicator of future performance. The value of this investment and any income arising from it can fall as well as rise as a result of market and currency fluctuations. Returns for share classes with a different OCF will vary accordingly

Source: Financial Express, bid to bid, total return (0.74% OCF). Fund launch date: 15.12.2015.

Important information

Issued by Guinness Asset Management Limited, 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 from the website www.guinnessfunds.com , or free of charge from:-

- the Manager Link Fund Manager Solutions (Ireland) Ltd, 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.

Residency

In countries where the Fund is not registered for sale or in any other circumstances where its distribution is not authorised or is unlawful, the Fund should not be distributed to resident Retail Clients.

NOTE: THIS INVESTMENT IS NOT FOR SALE TO U.S. PERSONS.

Structure & regulation

The Fund is a sub-fund of Guinness Asset Management Funds PLC (the "Company"), an open-ended umbrella-type investment company, incorporated in Ireland and authorised and supervised by the Central Bank of Ireland, which operates under EU legislation. If you are in any doubt about the suitability of investing in this Fund, please consult your investment or other professional adviser.

Switzerland

This is an advertising document. The prospectus and KIID for Switzerland, the articles of association, and the annual and semi-annual reports can be obtained free of charge from the representative in Switzerland, Carnegie Fund Services S.A., 11, rue du Général-Dufour, 1204 Geneva, Switzerland, Tel. +41 22 705 11 77, www.carnegie-fund-services.ch. The paying agent is Banque Cantonale de Genève, 17 Quai de l'Ile, 1204 Geneva, Switzerland.

Singapore

The Fund is not authorised or recognised by the Monetary Authority of Singapore ("MAS") and shares are not allowed to be offered to the retail public. The Fund is registered with the MAS as a Restricted Foreign Scheme. Shares of the Fund may only be offered to institutional and accredited investors (as defined in the Securities and Futures Act (Cap.289)) ('SFA') and this material is limited to the investors in those categories

Telephone calls will be recorded and monitored.