

Guinness Best of China Fund

INVESTMENT COMMENTARY – February 2021

Launch date 15.12.15

Team

Edmund Harriss (manager)
Mark Hammonds (analyst)
Sharukh Malik (analyst)

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) 31.01.2021

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

	2020	2019	2018
Fund	14.8	26.0	-20.3
Index	24.2	19.0	-9.5
Sector	33.6	22.2	-14.2

	1 year	3 years	From launch
Fund	32.0	23.4	116.3
Index	37.6	35.8	145.5
Sector	47.3	42.1	149.8

Annualised % total return from launch (GBP)

Fund	16.2%
Index	19.1%
Sector	19.5%

Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0.0	0.5	-2.4
Beta	1.0	1.0	1.0
Info ratio	0.0	0.0	-0.4
Max drwn	-17.8	-21.7	-25.7
Tracking err	0	5	7
Volatility	17.7	17.8	19.0
Sharpe ratio	0.9	0.9	0.7

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 January, the Best of China Fund rose 7.9% (in USD, Z class) while the MSCI Golden Dragon Net Total Return Index rose 6.6%.
- MSCI China rose 7.4%, MSCI Hong Kong rose 2.0% and MSCI Taiwan rose 6.5%. The Shenzhen Component Index rose 4.0% while the Shanghai Stock Exchange Composite Index rose 1.8%.
- MSCI China Growth rose 10.8% while MSCI China Value rose 3.6%.
- In MSCI China, the strongest sectors were Communication Services (total return of +18.4%), Consumer Discretionary (+7.7%) and Industrials (+6.6%) while the weakest were Real Estate (-4.0%), Information Technology (+0.5%) and Financials (+1.0%).
- In MSCI Hong Kong, the Real Estate and Financials indexes rose 1.7% and 4.1% respectively.
- In Taiwan, the Information Technology Index, which makes up 70% of the local index, rose 10.7%.
- In the Fund, strong performers were China Medical System, Oriental Yuhong, Suofeiya Home Collection, China Merchants Bank and Tencent. Weaker stocks were New Oriental Education, China Resources Gas and Anhui Conch Cement.

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

Events in January

- Clusters of COVID-19 outbreaks appeared in northern China, leading to travel restrictions and lockdowns in the affected provinces. By the end of January, reported cases had plummeted but travel restrictions were in place across much of the country. Authorities were encouraging workers to stay at home during the upcoming New Year holidays.
- Fourth quarter GDP grew 6.5% year-on-year (yoy), an acceleration from the 4.9% growth in the third quarter, while 2020 growth was 2.3%. Despite the growth, there remain areas of weakness such as in the hotel, catering, travel and conference industries.
- The official Purchasing Managers Index (PMI) fell slightly from 51.9 in December to 51.3 in January. Though this still indicates expansion of economic activity, there was a slight pullback in the production and new orders sub-indexes. The Caixin PMI, which is more geared towards private companies, fell from 53.0 in December to 51.5 in January. Clusters of COVID-19 cases have impacted economic growth, as the NBS pointed out was the case in Hebei, Jilin and Heilongjiang provinces. The decline in China's PMI index was in contrast to neighbouring Asian countries which were seeing their PMI indexes increase. However, note that as Chinese New Year approaches, it is expected that activity slows down.

Portfolio Performance

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

Top 5 Contributors	Top 5 Detractors
Oriental Yuhong (+0.9%)	Underweight in Tencent (-1.3%)
China Medical System (+0.9%)	Meituan (not held) (-0.6%)
Suofeiya Home Collection (+0.8%)	Underweight in Alibaba (-0.6%)
Sany Heavy Industry (+0.6%)	HKEX (not held) (-0.2%)
Haier Smart Home (+0.5%)	Nio (not held) (-0.2%)

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. Source: Bloomberg, Guinness Asset Management

China had a very strong month led by the large tech stocks as Tencent, Alibaba and Meituan, which contributed to 67% of MSCI's China increase in January. This was partly explained by southbound flows from the mainland, where assets in the mutual fund industry rose 48% to \$3.1tn in 2020. Concerns are now rising as to whether the mainland market is overly exuberant as newly launched funds break fundraising records. In our opinion, there are areas of the market where stocks are expensive and where they are at risk of a derating if companies cannot meet expectations. We think this risk is real for several companies on our watchlist even if we like the business itself. However, there are also areas of the market where there are good quality stocks in industries which have a lot of room to grow. In these cases, more expensive valuations can be justified if the growth is likely to come through.

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

We are pleased to report that the Fund built on the outperformance from the fourth quarter of last year by ending the first month of 2021 ahead of the index. The sudden setback suffered by Alibaba last year is a reminder of the specific risk associated with holding large positions in individual stocks, simply because they are a large component of the index. In January outperformance was led by, and spread across, a dozen names in Communication Services, Consumer stocks, Financials, Health Care, Industrials and Information Technology. These outperformers included five A shares, purchased last year – Oriental Yuhong, Suofeiya Home Collection, Sany Heavy Industry, Venustech and Nari Technology. US-listed Chinese stocks Autohome and NetEase were contributors, as were Hong Kong-listed stocks China Medical Systems, China Merchants Bank and Haier Smart Home. The weakest performers over the month were New Oriental Education, China Resources Gas, Anhui Conch Cement and Ping An Insurance.

Yuhong released a positive profit alert and is expecting net profit to have increased by 50-80% in 2020. Yuhong is the market leader in waterproofing materials and the company's focus on quality products is paying off. It is by far the most preferred brand by property developers and we feel there is a long path of growth ahead. Water leakages are a well-known problem in China and if water waste is to be reduced, Yuhong's products are likely to be in high demand. The company is expanding capacity to take advantage of these environmental considerations.

China Medical System (CMS) is a healthcare stock with most of its exposure coming from generic drugs. We believe the stock is very undervalued and the current valuation assumes a drop in earnings and a loss of competitive edge, which we think is unlikely. The company has persistently earned a high return on capital and management is taking steps to navigate the regulatory environment. The stock has been rallying since December on no specific news but we think it remains undervalued.

Suofeiya reported its 2020 preliminary results. Revenue is expected to grow 5-15% while net profit is expected to grow 5-15%. These results imply revenue growth accelerated in the fourth quarter, meaning management likely converted the backlog built up over the summer. The company is now guiding for revenue to grow 25% in 2021 with growing contribution from the developer channel.

New Oriental Education, a provider of tuition services, reported decent results. Offline K12 revenue rose 19% in the most recent quarter, an acceleration from the preceding quarters' 8-9% growth. Management think they can continue to grow at a high rate in the next quarter. But the stock was our weakest performer during the month. We think the recent share price weakness was driven by the uncertainty arising from COVID-related travel restrictions. In our opinion, the company can easily shift classes online if needed, as it did last year, so we look to top up the position if the share price continues to lag the market.

Summary view & outlook

China reported that its economy grew 2.3% in 2020 and it is likely to be the only major economy in the world to have recorded expansion. The market consensus forecasts 8.2% growth in 2021. So far, industrial production and investment are the chief drivers of growth while consumption growth still lags. One of our China A share holdings, dairy company Inner Mongolia Yili Industrial, announced it was raising prices suggesting demand is firm. We expect China will remain an economic growth leader in 2021 and that a gradual scaling back of monetary and fiscal support, which we also expect, is unlikely to change that.

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

Guinness Best of China Fund

The focus for 2021 is to continue shifting the Fund towards structural growth areas. Areas of interest include healthcare, cloud services, factory automation, import substitution in the semiconductor supply chain, electric vehicles, renewable energy and capital markets. Though we are interested in these themes, we intend to keep on investing in businesses which have a competitive advantage. These companies must be profitable and must earn a return on capital above the likely cost of capital. Aggregate earnings per share for the companies in the portfolio are expected by the consensus to grow 14.5% per annum over the next three years, which is over twice the 7.1% per annum growth rate for the benchmark.

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*

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

Guinness Best of China Fund

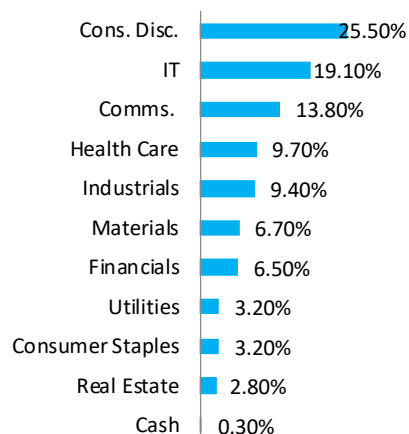
PORTFOLIO

31/01/2021

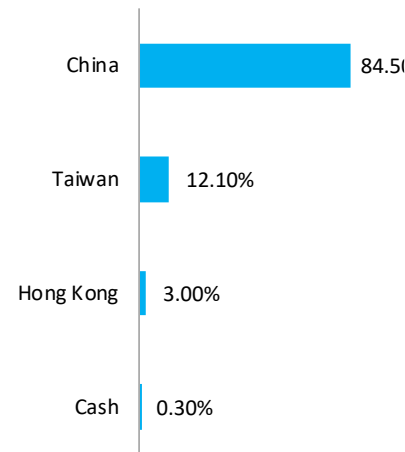
Fund top 10 holdings

Baidu	3.8%
China Medical System	3.7%
Suofeiya Home Collection	3.7%
Venustech Group	3.6%
Beijing Oriental Yuhong	3.4%
WUXI LEAD INTELLIGENT E	3.4%
China Merchants Bank	3.3%
Tencent Holdings	3.3%
Novatek Microelectronics	3.3%
HAIER SMART HOME CO L	3.3%
% of Fund in top 10	34.8%
Total number of stocks	35

Sector analysis



Geographic allocation



PERFORMANCE

31/01/2021

Annualised % total return from launch (GBP)

Fund (Z Class, 0.74% OCF)	16.2%
MSCI Golden Dragon Index	19.1%
IA China/Greater China sector average	19.5%

Discrete years % total return (GBP)

	Jan '21	Jan '20	Jan '19	Jan '18	Jan '17
Fund (Z Class, 0.74% OCF)	32.0	10.5	-15.4	22.7	-
MSCI Golden Dragon Index	37.6	8.6	-9.2	31.2	40.6
IA China/Greater China sector average	47.3	11.2	-13.2	35.5	37.8

Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Z Class, 0.74% OCF)	7.9	7.9	32.0	23.4	-	116.3
MSCI Golden Dragon Index	6.6	6.6	37.6	35.8	150.5	145.5
IA China/Greater China sector average	6.2	6.2	47.3	42.1	165.3	149.8

RISK ANALYSIS

31/01/2021

Annualised, weekly, from launch on 15.12.15, in GBP	Index	Sector	Fund
Alpha	0.00	0.52	-2.43
Beta	1.00	0.97	1.01
Information ratio	0.00	0.00	-0.39
Maximum drawdown	-17.78	-21.67	-25.74
R squared	1.00	0.93	0.88
Sharpe ratio	0.86	0.86	0.65
Tracking error	0.00	4.61	6.52
Volatility	17.68	17.82	18.97

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.

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

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'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.

GUINNESS

ASSET MANAGEMENT

Guinness Asset Management Ltd is authorised and regulated by the Financial Conduct Authority

Tel: +44 (0) 20 7222 5703

Email: info@guinnessfunds.com

Web: guinnessfunds.com