GUINNESS

Best of China

Annual review

2020

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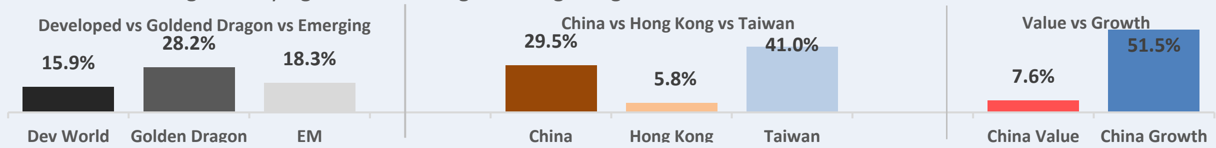
GUINNESS
ASSET MANAGEMENT

2020

Fund size
Start of year £3.5m
End of year £4.8m

What happened in Greater China?

- The COVID-19 virus emerged in China, spread through Asia and by March became a worldwide epidemic on a scale not seen since the Spanish Flu epidemic of 1918-1920. Overall, China and Taiwan successfully contained the outbreak, meaning China's economy grew 2.3%, while Taiwan's was flat.
- The US and China officially signed phase one of the trade deal. Broadly speaking, existing tariffs remained in place. China was required to buy at least $200 billion of goods and services from the US, including agricultural goods, airplanes, pharmaceuticals and energy products. The domestic economy was opened up to American financial companies in insurance, banking and asset management.
- China passed laws which banned subversion, separatism, terrorism and "activities of foreign forces" in Hong Kong. This development bypassed Hong Kong's Legislative Council, leading many to argue this violated the 'one country, two systems' principle.
- The US substantially increased restrictions targeting Chinese technology. Restrictions were imposed on companies such as Huawei and SMIC.
- A bill to force foreign companies to open their books to the US Securities and Exchange Commission was passed, increasing the likelihood of Chinese companies delisting from American bourses. In response, more Chinese companies listed in the US began carrying out dual listings in Hong Kong.



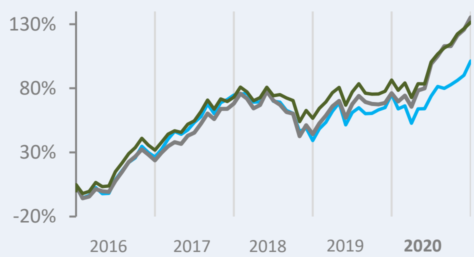
Total return in USD; Net total return indexes used for MSCI World, MSCI Golden Dragon & MSCI Emerging Markets Index; MSCI China & Hong Kong & Taiwan Index; MSCI China Value & Growth Index.

What happened in the Fund?

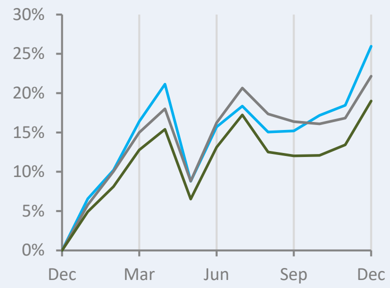
- The Fund rose 18.2% in 2020 (Z class, in USD) compared to the MSCI Golden Dragon Net Total Return (NTR) Index which rose 28.2%. The majority of the Fund's underperformance came in the first quarter, when the Fund fell 18.6% while the benchmark fell 13.2%. In the subsequent three quarters, the Fund increased 45.2% while the benchmark increased 47.7%.
- Taiwan was the strongest region as the MSCI Taiwan NTR Index rose 41.0%. The MSCI China NTR Index rose 29.5% while the MSCI Hong Kong NTR Index rose 5.8%. The Shanghai Shenzhen CSI 300 Index, which covers the domestic A-share market, rose 38.6%.
- MSCI China Growth grew 51.5% while MSCI Value grew 7.6%. Those companies which were less affected by the pandemic, such as those involved in gaming and e-commerce, were rewarded well by the market.
- We sold 14 positions and bought 11 positions. More emphasis was placed on investing in areas where structural growth is driving the industry, such as in e-commerce and cybersecurity.
- For the first time, we started investing in the domestic A-share market, increasing exposure to 26.5%.
- The Fund reduced its exposure to the Information Technology and Financials sectors by 8.2% and 8.0% respectively. Meanwhile, exposure to the Consumer Discretionary, Consumer Staples and Materials sectors increased by 5.7%, 3.2% and 3.1% respectively.
- The Fund ended the year on a price to earnings ratio (PER) of 16.8x 2020 estimated earnings and 14.6x 2021 earnings. Earnings are forecast to grow at a compound average annual rate of 14% over the next three years.

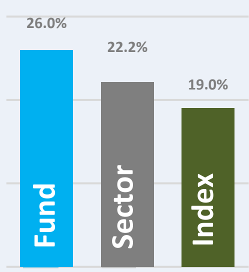
Performance in GBP (%)

Cumulative since launch



Calendar year 2020





Fund Guinness Best of China Fund
Sector IA Greater China
Index MSCI Golden Dragon

Cumulative % gross total return, in GBP.
Source: Financial Express, Z Class (0.74% OCF)

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.

Fund & Market Review

COVID-19 was the dominant event in 2020, leading to lockdowns and travel restrictions across the world. In its World Economic Outlook in October 2020, the IMF projected world GDP to fall 4.4% in 2020. Though China's initial response to COVID-19 was poor, it managed to successfully contain the virus and we have seen a V-shaped recovery. While there were occasional outbreaks of COVID-19 in China, a combination of a strict initial lockdown, mass testing and stringent border control meant life has broadly returned to normal. In Taiwan, there were only 822 cases of COVID-19 and seven deaths. Taiwan was very quick to place restrictions on incoming flights from China, first inspecting flights from Wuhan on 1st January 2020 and then placing strict restrictions on any incoming flights into the country. Using the lessons learned from SARS, Taiwan contained the spread of COVID-19 without using lockdowns. As a result, China's GDP grew 2.3% in 2020, while the IMF forecasts Taiwan's GDP to be flat.

Due to the successful containment of COVID-19, the Chinese and Taiwanese markets were outperformers relative to the rest of the world:

The indexes shown in the graph are net total return indexes.

In the Greater China region, Taiwan was the strongest region, rising 41%. The Information Technology sector, which makes up more than half of the Taiwanese index, rose 60%. After recovering its losses by the summer, the sector started rallying in the last two months, driven by an improving outlook for semiconductors (especially in memory chips), rising hopes for 5G, and a better reception for the new iPhone. In China, we saw strong performance in the Information Technology, Health Care, Consumer Staples, Consumer Discretionary and Communication Services sectors. Large-cap internet names were significant drivers of performance as their businesses were less affected by COVID-19.

The MSCI indexes shown in the graph are net total return indexes.

The Fund increased 18.2% (Z class in USD). This was behind the benchmark, the MSCI Golden Dragon Net Total Return Index, which rose 28.2%. The majority of the Fund's underperformance came in the first quarter, where the Fund fell 18.6% while the benchmark fell 13.2%. In the subsequent three quarters, the Fund increased 45.2% while the benchmark increased 47.7%.

The following chart shows the Fund's monthly performance:

Attribution for 2020 is shown below, with the contribution to relative performance shown in brackets:

Top 5 Contributors	Top 5 Detractors
Geely (+2.4%)	Underweight in Tencent (-3.0%)
Novatek Microelectronics (+2.4%)	Tongda Group (-2.3%)
Sany Heavy Industry (+1.8%)	Meituan (not held) (-2.2%)
Lead Intelligent (+1.8%)	AAC Technologies (-1.9%)
Baidu (+1.8%)	Luk Fook (-1.4%)

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.

First Quarter Attribution

Top 5 Contributors	Top 5 Detractors
Underweight in Alibaba (+0.6%)	Tongda Group (-1.9%)
AIA (not held) (+0.5%)	AAC Technologies (-1.5%)
Underweight in TSMC (+0.3%)	St Shine (-1.0%)
CNOOC (not held) (+0.3%)	Luk Fook (-0.9%)
Hon Hai (not held) (+0.3%)	China Lilang (-0.9%)

The Fund was weak in the first quarter, underperforming in each month. 86% of the Fund's underperformance in the quarter was attributable to its holdings in the Information Technology sector. These stocks can broadly be classed as component suppliers for smartphones and included Tongda, Catcher, AAC Technologies, Elite Material, Qualcomm and Novatek Microelectronics. In the beginning of 2020, as China was effectively in a lockdown, the fear was most of these businesses could not operate as their factories were closed. This led to a sharp derating reflecting this uncertainty. Over the course of the year, as China came out of lockdown and life began returning to normal, it soon became clear that it would be foreign demand that would be the main problem. Of the group of underperforming stocks, Tongda and AAC were sold on the basis that their competitive advantage was quickly slipping away and the likelihood of earnings growth was judged to be low. In the case of AAC, the unnecessary omission of the dividend was a further cause for concern. Qualcomm was sold later in the year based on our concerns it could be targeted by the Chinese government in response to trade tensions. We held onto Elite Material and Novatek which both managed to increase earnings in the first nine months of the year. We also held onto Catcher on the basis that its assets remain undervalued by the market.

Second Quarter Attribution

Top 5 Contributors	Top 5 Detractors
Elite Material (+1.6%)	Underweight in Tencent (-1.8%)
Sino Biopharmaceutical (+1.1%)	Underweight in Alibaba (-1.0%)
Qualcomm (+1.0%)	Meituan (not held) (-0.6%)
Novatek (+1.0%)	HKEX (not held) (-0.5%)
Netease (+0.8%)	Mediatek (not held) (-0.5%)

In the second quarter, the Information Technology holdings which were weak in the first quarter were the strongest in the Fund. First-quarter results suggested that despite lockdowns, a combination of the rollout of 5G and greater adoption of working from home could support earnings for these companies. However, this was offset by the Fund's underweight positions in Tencent and Alibaba. As China's largest gaming and e-commerce companies respectively, these two businesses were seeing their businesses boom. They also were the two largest stocks in the index, accounting for 10.5% and 11.5% of the benchmark respectively. Since the Fund is run on an equally weighted basis with each stock accounting for 3.2% of the Fund, it lagged in June as these two stocks were particularly strong.

Third Quarter Attribution

Top 5 Contributors	Top 5 Detractors
Oriental Yuhong (+1.2%)	Underweight in Alibaba (-3.0%)
China Lesso (1.2%)	Meituan (not held) (-0.8%)
Geely (+1.0%)	Venustech (-0.7%)
Novatek (+0.8%)	Hollysys (-0.6%)
Autohome (+0.8%)	Underweight in TSMC (-0.5%)

In July, the Fund outperformed despite the underweight in the large-cap tech stocks which were strong. The Fund benefited from strong performance by a range of stocks led by China Lesso, Oriental Yuhong, Geely and Novatek. However, in August the fund lagged the benchmark by 2.9%, of which 1.3% was due to the underweight position in Alibaba and 0.8% from Meituan (not held). This was strong enough to offset relatively milder strength from holdings Yili, Suofeiya and JD. In September, global markets sold off, led by the technology stocks which had done well over the year. The Fund outperformed in falling markets but gave back its gains in the last week as markets recovered, meaning the Fund outperformed by 0.1% in the month.

Fourth Quarter Attribution

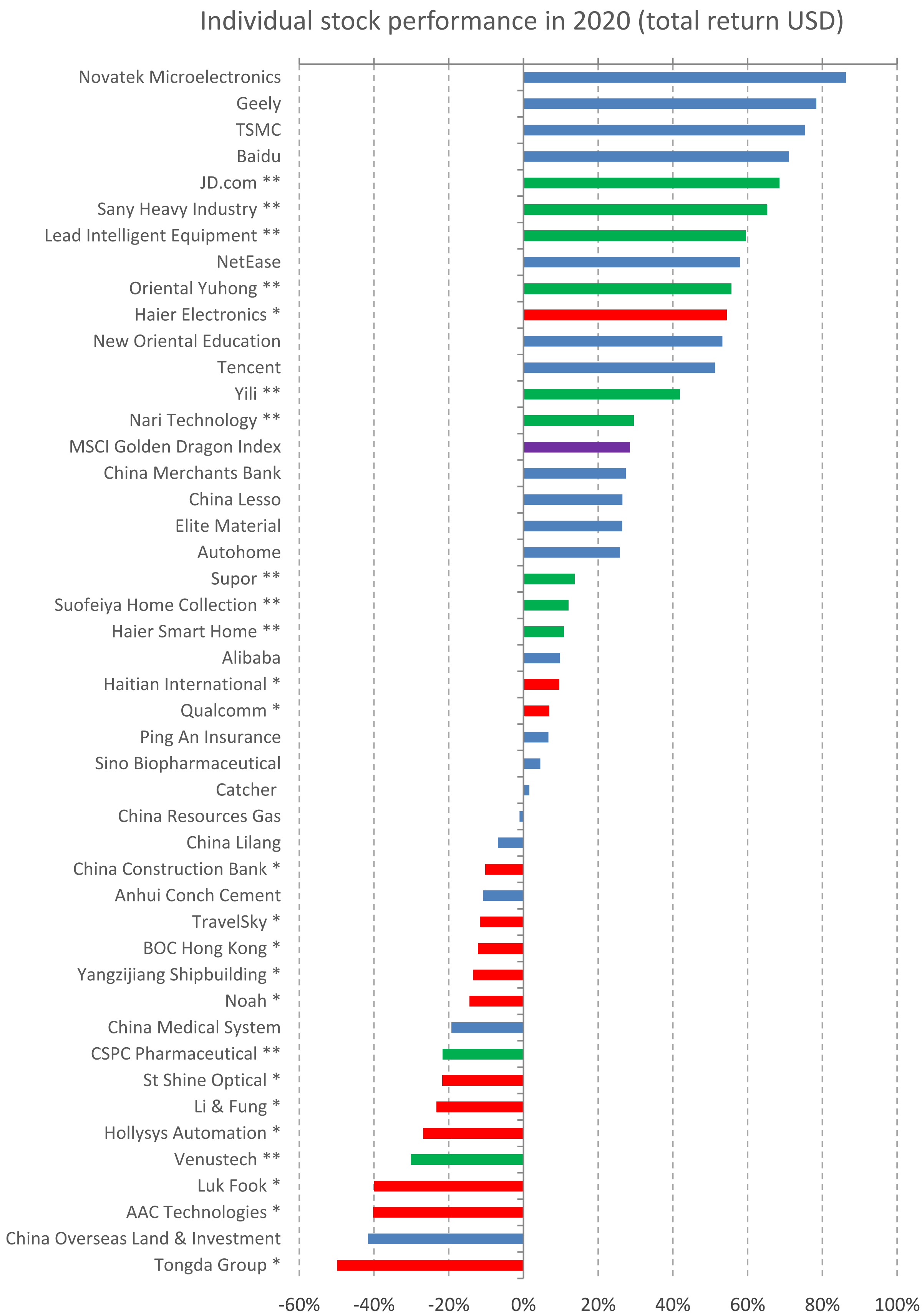
Top 5 Contributors	Top 5 Detractors
Underweight in Alibaba (+2.0%)	Pinduoduo (not held) (-0.8%)
Geely (+1.9%)	Nio (not held) (-0.8%)
Lead Intelligent (+1.8%)	Underweight in Tencent (-0.7%)
Baidu (+1.5%)	AIA (not held) (-0.6%)
Sany Heavy Industry (+1.4%)	Meituan (not held) (-0.6%)

In October, the Communist Party of China (CPC) released some details of its next Five-Year Plan. The summary communiqué did not mention a target goal for GDP growth and instead emphasised higher-quality growth, innovation, market reform, domestic demand and financial liberalisation. Of the Fund's 1.6% of underperformance in the month, 1.0% was due to the underweight position in Tencent and 0.4% to the underweight in Alibaba. On the other hand, we saw milder positive performance from China Lilang, Lead Intelligent and Suofeiya.

In November, positive data came out from various COVID-19 trials which led to a rally in stocks which were 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 which were less affected by COVID-19. The positive news on vaccines led to strong performance for stocks such as Geely, Haier Electronics, Sany Heavy Industry and Novatek Microelectronics. The Fund also gained 1.4% of relative performance in November due to the underweight in Alibaba, as Ant Group's public listing was indefinitely suspended. A speech by Jack Ma 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. Soon after, a consultation paper was released covering anti-trust activities on internet platforms which led to a sell-off in the large-cap internet companies such as Tencent, Alibaba and JD.com. The Fund performed well in the sell-off due to its lower concentration in these names, but these stocks recovered some of their losses later in the month.

In December, the Fund's outperformance was driven by Baidu, Lead Intelligent, the underweight position in Alibaba, Novatek and Geely. Baidu's share price was boosted by reports it was considering making electric vehicles, possibly in partnership with an existing automobile manufacturer. Lead Intelligent's major customer, CATL, announced a capacity expansion which was larger than expected. More news on anti-monopoly regulation led to weakness for Alibaba, in which the Fund is underweight.

Stock Performance



* sells, ** buys

GUINNESS ASSET MANAGEMENT

Leaders

Novatek Microelectronics is a manufacturer of display drivers used in TVs and, increasingly, smartphones. It has benefited as more people have worked from home since the pandemic started, boosting demand for displays and the drivers that come with them. Demand for TVs rebounded in the second half of 2020 which further boosted sales. The company's System-on-Chip (SoC) business, which integrates various components and functions into a single product, is also doing well, particularly in Samsung TVs. The company also seems to be doing a good job in diversifying sales away from Huawei, whose sales outside China have plummeted due to sanctions. Novatek has built good relations with the other major Chinese smartphone vendors which we expect should allow it to capture any 'lost' sales from Huawei.

The market rewarded companies in the electric vehicle (EV) industry and so **Geely** was a beneficiary of this rerating. In December, 5% of the cars the company sold were some form of EV. Along with Volvo, which is owned by Geely's parent company, Geely developed a platform for EVs called Sustainable Experience Architecture (SEA). SEA allows Geely to make EVs ranging from sedans and SUVs to pickup trucks, and should be supplied with batteries from leading providers CATL and LG Chem. Meanwhile, Geely's total sales volume fell 3% in 2020 which we regard as a good result given COVID-19. The company is now aiming to increase total sales volume by 16% in 2021.

As the world's largest foundry, **TSMC** has exposure to various trends including 5G, high-performance computing, artificial intelligence and the cloud. Despite a tough year, we feel 2020 showed how strong TSMC's competitive advantage really is. Intel announced delays in its plans to develop 7nm nodes, leaving TSMC and Samsung as the only realistic suppliers at this level of production. (The 7nm node refers to the process whereby the image of a Central Processing Unit chip is etched onto a piece of silicon. The ability to do so at smaller nodes allows for an increased number of transistors which individually use less power, generate less heat and so enable more calculations.) In order to remain competitive, Intel will need to use 7nm nodes for its products, so there is a good chance that Intel could turn to TSMC for this if it cannot resolve its own problems – something that would have been considered very unlikely just five years ago.

Baidu is a company which has struggled with changes in its competitive landscape, but we felt the stock was undervalued so continued to hold it. Its core search business is under pressure as companies like Tencent and Bytedance create 'walled gardens', meaning they cannot be indexed by Baidu's search algorithm. In an attempt to drive users to its own apps, Baidu significantly increased its spending on content and traffic acquisition costs. However, much of this spending did not drive meaningful growth, and combined with a slowdown in the core business, the share price was weak in 2019. In 2020, management cut back on wasteful spending and the focus shifted towards in-app monetisation. Margins for the core business rose throughout the year, which led to a gradual rerating. In December, reports indicated that Baidu was considering making electric vehicles, most likely in partnership with an existing automobile manufacturer. Baidu Is already considered to be one of China's most advanced companies in autonomous driving and the news led to a sharp rise in the share price.

We bought **JD.com**, one of China's largest e-commerce companies, in May. JD is different to Alibaba in that it has built its own logistics platform so has more control over the quality of its service and the amount of inventory it holds. This meant that during the worst of the lockdown, JD was better stocked than its peers and its delivery services were less interrupted. JD was initially known for selling electronics but has branched out into apparel and more recently groceries, and so has seen very strong demand this year. The purchase of JD.com gives the Fund more exposure to e-commerce, an industry which did very well in 2020.

Laggards

Of the holdings still held at the end of the year, the weakest stock was **China Overseas Land & Investment (COLI),** a more conservative property developer which has likely suffered a derating due to its conservative nature. Competitors with more debt have been more richly rewarded by the market despite the risks of this higher debt. This risk came into play in October as the government started implementing its 'Three Red Lines', regulations which imposed leverage caps on property developers. Though indebted developers have three years to meet these requirements, they are likely required to change their strategy in the short term which may lower future growth prospects. COLI passes the new regulations and so should not be impacted by the new rules. COLI is attractive to us because of management's focus on the business's ROE rather than on maximising sales growth; at present, it this approach which is out of favour with the market. Adding to the negative sentiment, COLI's parent company, China State Construction Group, was designated as a 'Communist Chinese military company' by the President of the United States. There is a possibility that COLI could also be designated as such, which would mean American investors are not able to buy the stock. This news led to further weakness for the share price, and COLI is now trading at its cheapest ever valuation on a forward-looking basis.

Venustech is a new addition to the Fund but so far has performed poorly. It provides cybersecurity services and tests for the government, telecom and financial sectors. Third-quarter results were weaker than expected due to delays in government projects. We expect that these delays should be resolved in time for fourth quarter results and this was reflected in a recent update, where management said orders accelerated in October and November. Venustech expect revenue to rise 20-25% in 2021, with particularly high growth in newer segments such as cloud security.

CSPC Pharmaceutical was another addition to the Fund. It is in the process of shifting its business away from generics towards more innovative drugs and has a well-diversified portfolio with several new drugs in the pipeline. Price cuts for CSPC's main product weighed on the share price, but we feel that the short-term hit to earnings is likely to be much lower than the long-term gain coming from higher volumes. **China Medical System** (CMS) is another healthcare stock facing the same issue but has much higher exposure to competition from generic products. We believe that the market is pricing in a collapse of CMS's earnings and 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. In its interim results, CMS increased revenue and earnings per share by 5% and 10%, leading to a 12% increase in the dividend.

Anhui Conch Cement trades towards the bottom of its historical range on a price/earnings basis. Growth has slowed down and it seems rising inventory is becoming a problem, and so the focus is likely to be on destocking. Demand may very well be weak in 2021 given that policymakers are unlikely to stimulate the housing market. For now, the share price is supported by low valuations, giving room for a reasonable rerating, as well as the relatively high dividend yield.

Portfolio Changes

In 2020, the Fund sold 14 positions and bought 11 positions, thus ending the year at 31 positions. During the year, we made the decision to shift the strategy of the Fund. Previously, in order for a company to be eligible for the Fund, it had to earn a high return on capital over eight consecutive years. While this approach has its merits, it does not allow the Fund to invest in younger companies where there is structural growth driving earnings. Examples of these younger industries include e-commerce and food delivery, both of which have boomed during the pandemic. The decision was made in May to allow the Fund to invest in companies with a shorter operating history, but where there is momentum behind the industry due to its structural growth drivers.

We have identified structural growth themes which we think will grow over the long term. We expect that this should, in turn, direct us towards companies which have a reasonable chance of increasing their earnings over the long term. The themes are extensive and are clustered around consumption, software, manufacturing and finance. Some of the areas of interest include:

- Consumption – lifestyle upgrades. As China's economy grows, households are likely to upgrade their purchases. This could mean households upgrade their washing machines or fridges, begin to buy dairy products regularly, or buy their first noodle maker or slow cooker. Fund examples: **Haier Smart Home, Yili** and **Supor**.
- Consumption – healthcare. China's population is ageing, and the infrastructure is being developed to deal with this issue. We believe one of policymakers' aims is to cultivate domestic leaders in the pharmaceutical industry to reduce the dependence on foreign firms, which should open up several interesting investment ideas. Fund examples: **Sino Biopharmaceutical** and **CSPC Pharmaceutical**.
- Software – cybersecurity. China's Multi-Level Protection Scheme 2.0 (MLPS 2.0) was introduced in 2019, which classifies risk into five levels and requires affected firms to have cybersecurity tests conducted by an approved firm. Businesses can be fined for not meeting the new standards. The new rules significantly open up the total addressable market for cybersecurity companies. Fund example: **Venustech**.
- Manufacturing – electric vehicles (EVs). Policymakers are doing their best to ensure Chinese EV manufacturers become global leaders and so far they have invested billions into nurturing a domestic industry. The supply chain covers firms ranging from material extraction to battery equipment manufacturers to the vehicle manufacturers themselves. Fund example: **Lead Intelligent**.

To be clear, we are not interested in businesses which are persistently loss-making. We are not interested in businesses where management have laid out a good story but the financials indicate the cashflow is not coming through. We are looking for businesses which are already profitable and are in an industry that can grow over the long term.

Sales

TravelSky supplies data for China's aviation industry. Its services include real-time flight reservation information and ticket prices, inventory control and airport passenger processing. Due to COVID-19, the number of people travelling in China had fallen significantly and we felt the fall in the share price did not reflect this, and so sold the position in February.

Li & Fung has struggled in a world where its role as a sourcing agent, connecting retailers with suppliers, is becoming less relevant. We gave the business time to show signs of a turnaround but this looked unlikely and so we sold the position. Similarly, we had given time to **Tongda** to show whether its shift to 'glastic' casings could generate the same level of profitability as the traditional business. This was not the case in its update in February and Tongda unexpectedly began to face pricing pressure in its waterproof components business. The remote possibility of earnings growth led us to sell the position.

We sold **AAC Technologies** after it announced a negative profit warning and significantly, in our opinion, omitted its final dividend. We also sold **St Shine** as its returns on capital have fallen over time, signifying the loss of its competitive advantage. **Luk Fook** was sold as the situation in Hong Kong, which is a large contributor to profit, continues to deteriorate after the national security law was passed. The company generates most of its revenues from mainland Chinese visitors to its Hong Kong stores and a resumption of Chinese tourist arrivals looked increasingly distant.

Qualcomm was sold after its share price recovered from its decline in the first quarter. While the company is likely to benefit from the rollout of 5G, we thought there were several threats on the horizon that the market is not paying attention to. China's determination to achieve self-sufficiency could lead to import substitution, negatively impacting Qualcomm. Greater tensions with the US may mean the Chinese government retaliates against American companies such as Qualcomm and we felt this risk was too high. **Yangzijiang's** return on capital has been poor for some time and in the current climate, we thought it was unlikely many new orders would be coming through. In the present low interest rate environment, we thought **BOC HK** is likely to find it difficult to grow earnings. Growth headwinds for the big banks in China also led to the sale of **China Construction Bank**.

Hollysys has been a serial disappointment and its performance has lagged other industrial automation companies. Though the stock looks cheap, we felt even with a recovery in the multiple the upside was higher in other ideas. We sold **Noah**, a wealth and asset management business. The company is still feeling the effects related to a credit fund which was in default. The issues have dragged on for a year and combined with the business's ongoing shift in distribution, we thought it was unlikely returns would pick up in the future. **Haitian International** has been a good contributor to performance for the Fund over the years. The business has managed to navigate 2020's volatility very well but it is difficult to see the long-term structural growth drivers. As was the case with Hollysys, we felt there were other opportunities which offered greater upside. **Haier Electronics** was acquired by its parent company, Haier Smart Home. In exchange, we received shares of the parent company which conducted a dual listing in Hong Kong. Owning the parent company gives the Fund greater exposure to the rest of Haier's business, including fridges, kitchen appliances, air conditioners and the overseas business.

Purchases

We bought **Zhejiang Supor**, a manufacturer of small kitchen appliances, which marked our first purchase of a domestic A-share. Supor has strong brand loyalty and benefits from cooperation with its French parent company Groupe SEB. Supor has the leading market share in woks, frying pans, pots and steamers. It ranks second in the market for small domestic appliances such as electric rice cookers, slow cookers, garment steamers and dust cleaners. The purchase of **JD.com** increased the Fund's exposure to e-commerce. **Oriental Yuhong** is China's largest manufacturer of waterproofing materials. Its products are used for various types of construction and we believe that Yuhong is likely to benefit from China's infrastructure stimulus. Yuhong's focus on quality and its large scale has meant it is by far the most preferred brand by developers.

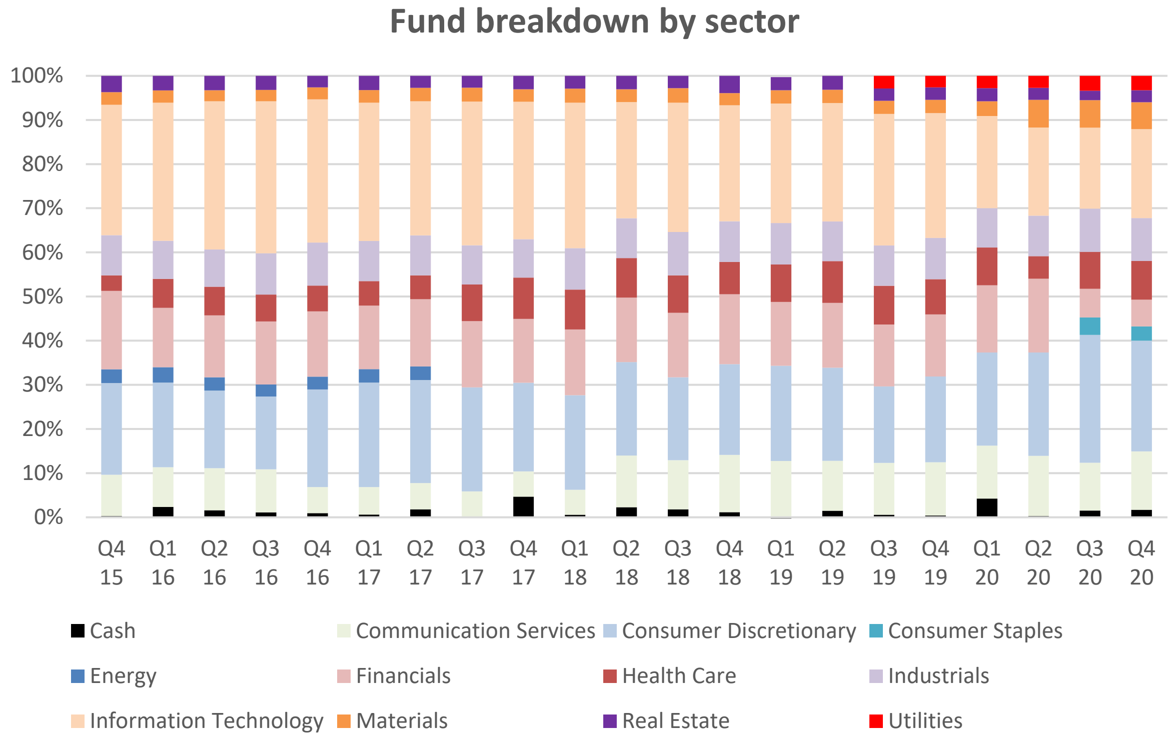
Yili is China's largest dairy company and should benefit as dairy consumption rises with economic growth. **Suofeiya** is a designer and manufacturer of furniture and kitchen cabinets. It is one of the more well-known brands in the industry and is expanding through partnerships with developers, to take advantage of the rising trend of furnished apartments in China. Suofeiya has generated a high return on capital for many years and we feel the share price is undervaluing this persistence in the business. **Venustech** is one of China's largest software security providers. Its main customers are various government departments, telecoms companies and financial institutions. Recently cybersecurity standards were strengthened and firms in critical sectors will need to conduct more stringent cybersecurity tests, which should expand the addressable market for the company.

CSPC Pharmaceutical is in the process of shifting its business away from generics towards more innovative drugs. It has a well diversified portfolio and has several new drugs in the pipeline. CSPC has rapidly increased its spending on research and development (R&D) and in 2019 spent 9% of its revenue on R&D. This is close to what Sino Biopharmaceutical, an existing holding in the Fund, spends. CSPC plans on increasing its R&D spend to 10-15% revenue in the coming years, which should further push the business away from low-margin generics. **Sany Heavy Industry** is China's largest manufacturer of excavators and concrete machinery. We think the company can benefit from infrastructure stimulus and the valuation is undemanding for a business which can grow over time.

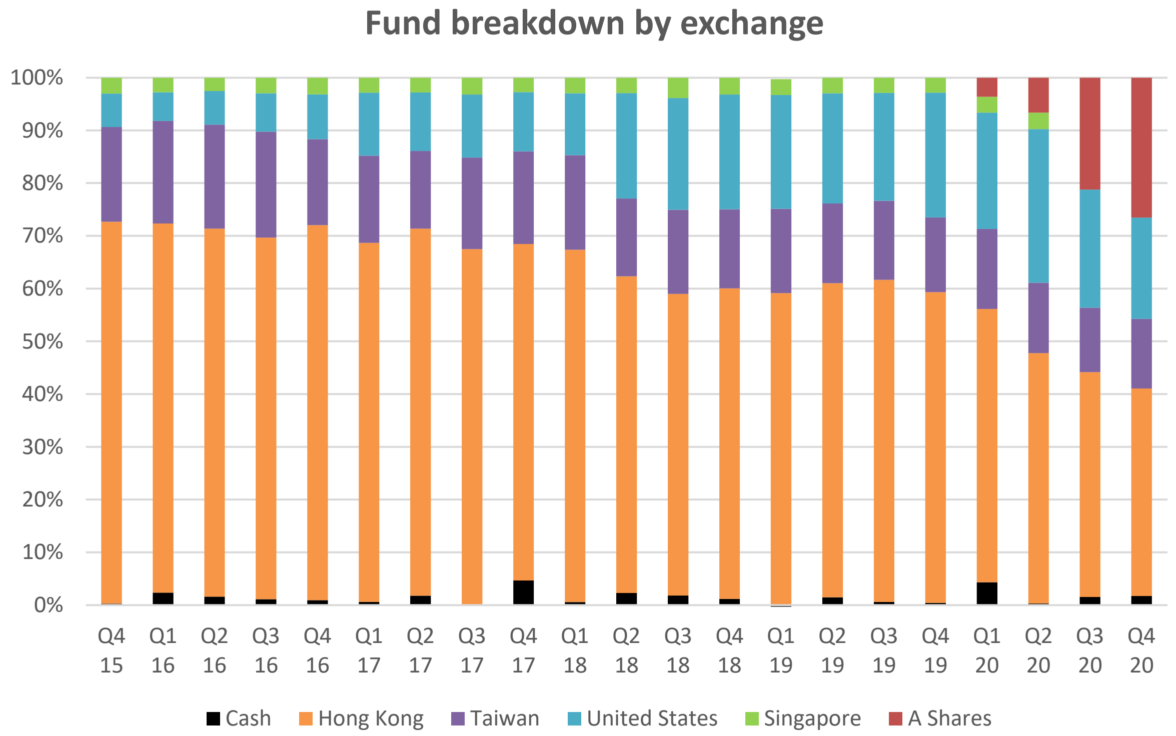
Lead Intelligent is a supplier of battery equipment for electric vehicles. It specialises in the mid stage of the production process, in the winding process used to make cells. Lead Intelligent should benefit from battery manufacturers' expansion plans, such as CATL's new €2bn plant in Germany and Northvolt's expansion in Sweden. **Nari Technology** is a subsidiary of the State Grid Corporation of China and has leading market share in dispatching hardware and software, which transmits real-time information across the grid. We think Nari's valuation is very undemanding for a company which should benefit from increased spending on the grid to support economic growth in China. Further spending on renewable energy should also be supportive to the business. Other growth drivers include China's unique Ultra High Voltage (UHV) transmission and greater adoption of smart meters. **Haier Smart Home** acquired our position in Haier Electronics, and in exchange we received shares of the parent company which listed in Hong Kong. Owning the parent company gives us greater exposure to the rest of Haier's business, including fridges, kitchen appliances, air conditioners and the overseas business.

Portfolio Positioning

In 2020, the Fund reduced its exposure to the Information Technology and Financials sectors by 8.2% and 8.0% respectively. Meanwhile, exposure to the Consumer Discretionary, Consumer Staples and Materials sectors increased by 5.7%, 3.2% and 3.1% respectively.



The Fund, for the first time, started investing in the domestic A-share market. Exposure to A-share companies increased by 26.5% while exposure to Hong Kong listed companies fell by 19.6%.



Outlook

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.

To be clear, we are not interested in businesses which are persistently loss-making. We are not interested in businesses where management have laid out a good story but the financials indicate the cashflow is not coming through. We are looking for businesses which are already profitable and are in an industry that can grow over the long term.

As of 31st December 2020, based on consensus earnings estimates, the portfolio is expected to grow earnings by a compound annual growth rate of 13.8% over the next three years. This is higher than the 10.7% estimate for the benchmark, the MSCI Golden Dragon Index, as well as the 10.7% estimate for the MSCI China Index. Despite the higher growth rate for the Fund, it trades at a forward price earnings multiple of 16.8x consensus estimated earnings for 2020, and 14.6x consensus estimated earnings for 2021. This puts the Fund on a discount to the market of 13% for 2020 and 9% for 2021 earnings. We think this combination of higher growth at a cheaper valuation, relative to the benchmark, makes the Fund an attractive proposition.

For more information

Read more on the Fund

Visit our website for more information on the Fund and to register for regular email updates on its performance and portfolio.

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Contact our sales team

Our sales team are on hand to explain the Fund and its investment process in more detail and answer any queries you might have.

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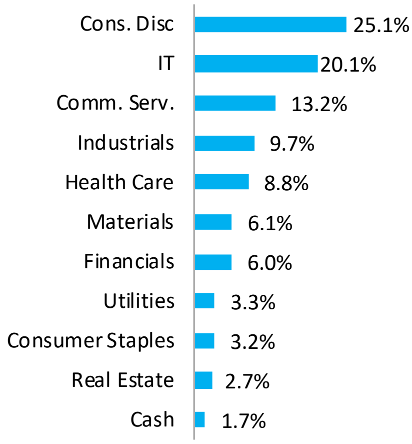
PORTFOLIO

31/12/2020

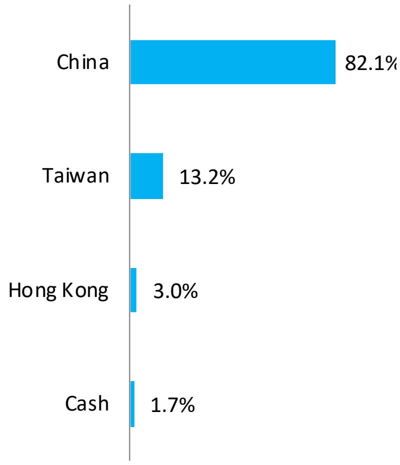
Fund top 10 holdings

Baidu	4.4%
WUXI LEAD INTELLIGENT E	3.9%
Novatek Microelectronics	3.8%
HAIER SMART HOME CO L'	3.6%
NARI TECHNOLOGY CO LTI	3.5%
Taiwan Semiconductor	3.5%
Geely Automobile Holdin	3.5%
Beijing Oriental Yuhong	3.4%
Sany Heavy Industry	3.3%
China Resources Gas Gro	3.3%
% of Fund in top 10	36.0%
Total number of stocks	31

Sector analysis



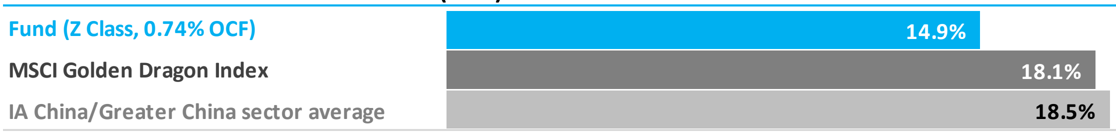
Geographic allocation



PERFORMANCE

31/12/2020

Annualised % total return from launch (GBP)



Discrete years % total return (GBP)	Dec'20	Dec'19	Dec'18	Dec'17	Dec'16
Fund (Z Class, 0.74% OCF)	14.0	26.0	-20.3	38.2	22.7
MSCI Golden Dragon Index	24.2	19.0	-9.5	31.3	25.7
IA China/Greater China sector average	33.4	22.2	-14.2	35.9	18.5

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Z Class, 0.74% OCF)	5.9	14.0	14.0	13.3	-	95.9
MSCI Golden Dragon Index	2.2	24.2	24.2	33.8	120.9	131.4
IA China/Greater China sector average	4.3	33.4	33.4	39.9	125.2	135.1

RISK ANALYSIS

31/12/2020

Annualised, weekly, from launch on 15.12.15, in GBP	Index	Sector	Fund
Alpha	0.00	0.70	-2.64
Beta	1.00	0.98	1.01
Information ratio	0.00	0.06	-0.43
Maximum drawdown	-17.98	-21.67	-25.74
R squared	1.00	0.93	0.88
Sharpe ratio	0.77	0.77	0.54
Tracking error	0.00	4.61	6.45
Volatility	17.42	17.61	18.66

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 (Z class, 0.74% OCF). Fund launch date: 15.12.2015.

Guinness Asset Management

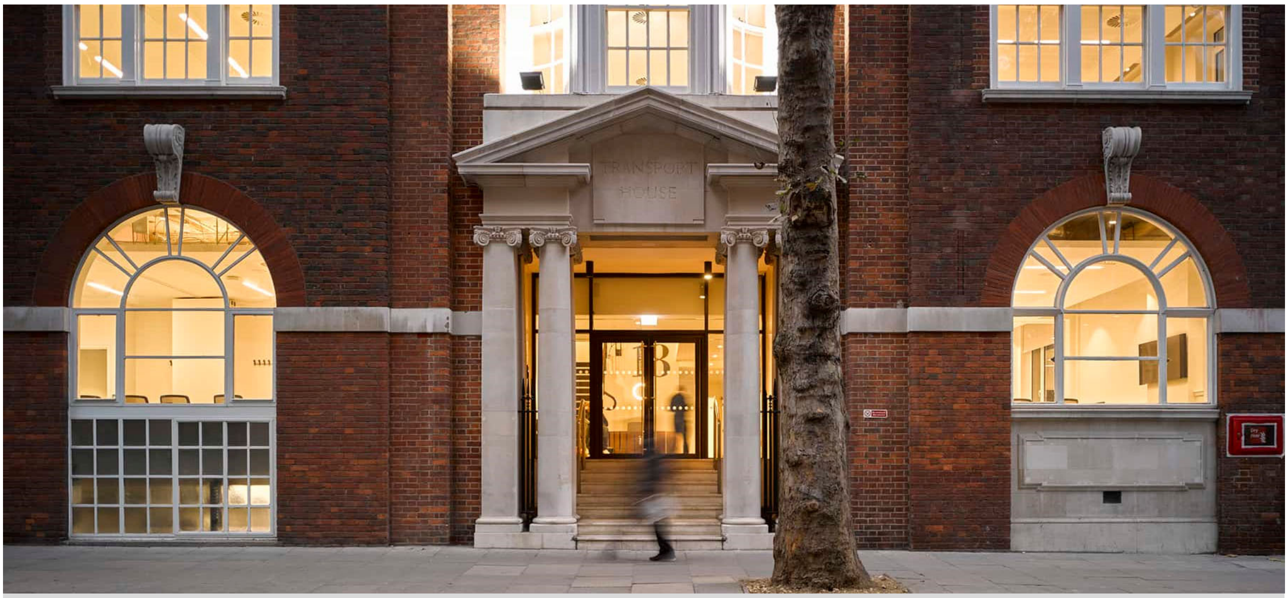
Guinness Asset Management provides a range of long-only actively managed funds to individual and institutional investors. Founded in 2003, Guinness is independent and is wholly owned by its employees.

We believe in in-house research, intelligent screening for prioritisation of research and well-designed investment processes. We manage concentrated, high conviction portfolios, with low turnover and no benchmark constraints. Since our establishment we have developed a variety of specialisms in global growth and dividend funds, global sector funds and Asian regional and country funds. The Guinness equity funds sit within an Irish-listed OEIC. They are managed alongside a range of similar SEC-registered funds offered to US investors by our US sister company, Guinness Atkinson Asset Management Inc. We also offer an Enterprise Investment Scheme (EIS service) investing in private companies across a range of sectors and an AIM EIS investing in AIM-listed companies.

Our products

Equity income funds	Global	Global Equity Income Fund
	Regional	European Equity Income Fund Emerging Markets Equity Income Fund Asian Equity Income Fund
Growth funds	Global	Global Innovators Fund
Specialist investment funds	Energy	Global Energy Fund Sustainable Energy Fund
	Financials	Global Money Managers Fund
	China	Best of China Fund
Tax efficient services for UK investors	EIS	Guinness EIS AIM EIS
	Inheritance planning	Sustainable Infrastructure Service

Contact us



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