

Guinness Best of China Fund

INVESTMENT COMMENTARY – May 2021

Launch date	15.12.15		
Team	Edmund Harriss (manager) Sharukh Malik (manager) Mark Hammonds (analyst)		
Aim	<p>Guinness Best of China Fund is designed to provide investors with exposure to economic expansion and demographic trends in China and Taiwan.</p> <p>The Fund is managed for capital growth and invests in profitable companies generating persistently high return on capital over the business cycle.</p>		
Performance (in GBP)	30.04.21		
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	35.1	30.8	121.3
Index	32.1	40.4	142.4
Sector	34.1	43.1	138.9
Annualised % total return from launch (GBP)			
Fund	15.9%		
Index	17.9%		
Sector	17.6%		
Risk analysis (annualised, weekly, from launch)			
	Index	Sector	Fund
Alpha	0.0	-0.3	-1.7
Beta	1.0	1.0	1.0
Info ratio	0.0	-0.1	-0.3
Max drwn	-17.8	-21.7	-25.7
Tracking err	0.0	4.8	6.5
Volatility	17.8	18.2	19.2
Sharpe ratio	0.8	0.7	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 April, the Best of China Fund rose 2.8% (in USD, Z class) while the MSCI Golden Dragon Net Total Return Index rose 3.1%.
- After weak performance in February and March, Chinese markets rose in April. MSCI China rose 1.4%, MSCI Hong Kong rose 3.1% and MSCI Taiwan rose 7.7%. The Shanghai Shenzhen CSI 300 Index rose 2.8%.
- MSCI China Growth rose 2.2% while MSCI China Value rose 0.6%.
- In MSCI China, the strongest sectors were Healthcare (total return of +10.9%), Materials (+6.0%) and Consumer Staples (+3.3%) while the weakest were Real Estate (-4.9%), Financials (-3.2%) and Energy (-2.2%).
- In MSCI Hong Kong, the Real Estate and Financials indexes rose 2.5% and 3.9% respectively.
- In Taiwan, the Information Technology Index, which makes up more than 70% of the local index, rose 6.8%.
- In the Fund, strong performers were China Medical System, China Lesso and Oriental Yuhong. Weaker stocks were Suofeiya, Sany Heavy Industry and JD.com.

Events in April

- Consumer price inflation (CPI) was 0.4% in March, which marked the first positive reading in three months. Producer price inflation (PPI) rose from 1.7% in February to 4.4% in March. Higher PPI reflected higher oil prices and greater industrial demand.

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- Total social financing (TSF), a broad measure of credit, grew 12.6% in March compared to 13.5% in February. Government bond financing slowed, reflecting less government fiscal support in March 2021 vs March 2020, when COVID-19 was at its peak in China. On the other hand, medium and long-term credit continues to flow to the corporate sector, suggesting robust appetite for investment.
- First quarter GDP grew 18.3% against a very low base. Compared to the first quarter of 2019, GDP has grown by 5.0% a year. Sequentially, GDP growth slowed down, most likely due to travel restrictions introduced during the New Year holiday in February.
- Retail sales grew 34.2% in March. On a month-on-month (mom) basis, retail sales grew 3.2% in March compared to 1.3% mom in the first two months of the year. On the other hand, industrial production fell 3.9% in March compared to a 0.6% mom rise in the first two months of the year.

Portfolio Performance

In March, the top and bottom five contributors to performance are shown below, with the contribution to relative performance shown in brackets:

Top 5 Contributors	Top 5 Detractors
China Lesso (+0.6%)	Suofeiya (-0.3%)
China Medical System (+0.5%)	Mediatek (not held) (-0.3%)
Oriental Yuhong (+0.5%)	Venustech (-0.3%)
Lead Intelligent (+0.4%)	Sany Heavy Industry (-0.2%)
Novatek Microelectronics (+0.4%)	Evergreen Marine (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.

Company Updates

The Fund's holdings in A-shares reported 2020 results in April, which are summarised below.

Yuhong's revenue grew 20% and EPS grew 56%. The main segment, waterproofing membranes, grew sales by 13%. The smaller but rapidly growing waterproof paint segment grew sales by 23%. Gross profits benefited from lower oil and bitumen prices in 2020. As raw material costs are now increasing, margins are likely to slightly drop from their elevated levels but the company has plans in place to mitigate this decline. A combination of price increases, greater use of automation and a shift in product mix towards higher margin products should help soften the drop in margins. We were encouraged to see that Yuhong's control of its working capital improved, allowing the company to build up a net cash position.

Suofeiya reported revenue growth of 9% and EPS growth of 10%. The company is a manufacturer of wardrobes and kitchen cabinets. To help target the different segments of the market, Suofeiya has established a new brand called *Milana*, targeting the mass market. Existing brands *Schmidt* and *Huahu* will target the premium end of the market, while *Suofeiya* will cover the mid-to-high-end. We believe the

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company can take advantage of rising household incomes which should drive demand for home improvements.

Nari Technology's revenue grew 19% while EPS grew 12%. The company manufactures equipment for the State Grid, specialising in dispatching hardware and software which transmits real-time information to the dispatch centre. As China continues to build out its renewable energy capacity, the grid will need to be expanded and so Nari should be a beneficiary. Nari is also a leading company in Ultra High Voltage (UHV) lines which lower transmission losses when electricity is transported across long distances.

Lead Intelligent grew revenue 25% but EPS fell 2%. Losses in an acquired business, Titan New Energy, which conducts testing for lithium cells, explained much of the gap between revenue growth and a drop in earnings. However, management say the restructuring of Titan is complete and that order wins in the first two months of 2021 have already exceeded the total for 2020. Separately, CATL, which is one of the world's largest battery manufacturers, is now the second largest shareholder in Lead Intelligent. This means Lead has opportunities to expand its sales to CATL to different parts of the production process.

China Lesso reported revenue growth of 7% and EPS growth of 25%. Lesso is expanding its plastic pipes business into the agricultural sector which is a sensible decision. Potential applications include irrigation systems and marine aquaculture. Lesso is also expanding its overseas business as it is building a new production base in Indonesia and is planning another for Cambodia.

Fuling Zhacai grew revenue 15% and EPS by 28%. In response to rising mustard root costs, the company has passed on some of the higher costs onto customers, indicating the business' pricing power. However, costs have risen by more than expected this year due to lower supply output in eastern China, and so margins may drop in 2021. The company has an aggressive growth target and is aiming for 30%+ revenue growth a year for the next five years. To achieve this aim, the company has significantly increased its number of distributors in lower tier cities.

Yili reported revenue growth of 7% and EPS growth of 2%. Management think Yili now ranks as the fifth largest dairy company in the world and is aiming to become the third largest by 2025. Margins for the core business were stable but the group margin was dragged down by newer segments such as fresh milk and cheese. These newer segments are needed if Yili is to achieve its growth target.

Summary view & outlook

Out of 32 companies held in the Fund, 30 have reported full year earnings for 2020. In aggregate, for the 30 reporting companies, sales grew 9% while earnings grew 25%. The median increase in revenue was 13% while the median increase in earnings was 15%. This compares to the benchmark, whose sales fell 2% and earnings fell 11%.

We believe the Fund's superior sales and earnings performance is down to the approach we use. We have identified several industries which we think are likely to grow over time based on numerous structural growth themes. We believe companies in these industries therefore have a high chance of growing their earnings over time. We then apply a set of quantitative filters to identify profitable companies which earn a return on capital above their likely cost of capital. These companies must also have strong balance

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Guinness Best of China Fund

sheets, with a debt to equity cap of 150%. This results in an investable universe of 320 stocks, of which 32 make it into the Fund. When picking these 32 companies, we look for businesses which in addition to growing their earnings, are attractively valued. We are not interested in stocks where a valuation derating can offset most, if not all, of the earnings growth. This process results in a portfolio which is cheaper than the benchmark yet offers high earnings growth, while doing so at a return of equity which is double that of the benchmark.

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Mark Hammonds, CFA (analyst)

Data sources

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

Index and stock data: *Bloomberg*

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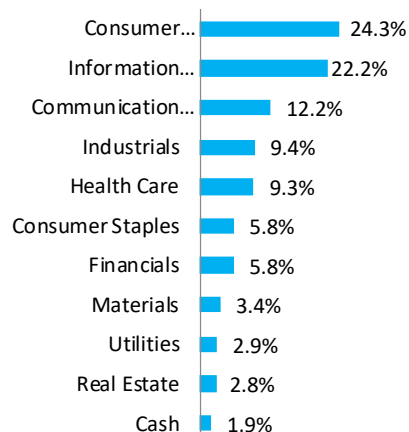
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30/04/2021

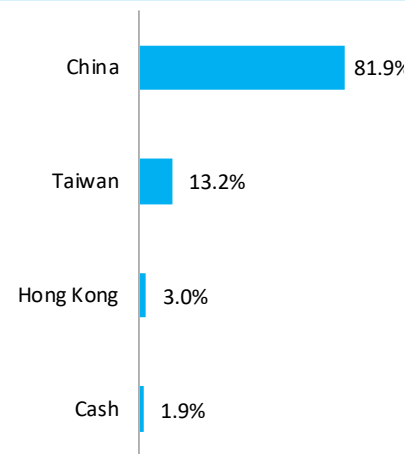
Fund top 10 holdings

China Lesso Group	4.0%
Novatek Microelectronics	3.9%
Beijing Oriental Yuhong	3.4%
Wuxi Lead Intelligent Equ	3.3%
Haier Smart Home	3.3%
Catcher Technology	3.2%
CSPC Pharmaceutical Gro	3.2%
Zhejiang Supor	3.2%
China Medical System	3.2%
Inner Mongolia Yili Indus	3.1%
% of Fund in top 10	33.8%
Total number of stocks	37

Sector analysis



Geographic allocation



PERFORMANCE

30/04/2021

Annualised % total return from launch (GBP)

Fund (Z Class, 0.74% OCF)	15.9%
MSCI Golden Dragon Index	17.9%
IA China/Greater China sector average	17.6%

Discrete years % total return (GBP)

	Apr '21	Apr '20	Apr '19	Apr '18	Apr '17
Fund (Z Class, 0.74% OCF)	35.1	-2.8	-0.4	17.5	47.3
MSCI Golden Dragon Index	32.1	1.5	4.7	18.6	41.0
IA China/Greater China sector average	34.1	4.7	2.0	22.2	37.1

Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Z Class, 0.74% OCF)	2.6	9.9	35.1	30.8	126.2	121.3
MSCI Golden Dragon Index	2.7	4.8	32.1	40.4	134.9	142.4
IA China/Greater China sector average	2.4	1.5	34.1	43.1	139.8	138.9

RISK ANALYSIS

30/04/2021

Annualised, weekly, from launch on 15.12.15, in GBP	Index	Sector	Fund
Alpha	0.00	-0.26	-1.72
Beta	1.00	0.98	1.01
Information ratio	0.00	-0.12	-0.27
Maximum drawdown	-17.78	-21.67	-25.74
R squared	1.00	0.93	0.88
Sharpe ratio	0.79	0.74	0.63
Tracking error	0.00	4.78	6.53
Volatility	17.80	18.17	19.17

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

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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

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