Guinness Greater China

Investment Commentary – June 2024

RISK

This is a marketing communication. Please refer to the prospectus, KIDs and KIIDs for the Fund, which contain detailed information on its characteristics and objectives, before making any final investment decisions.

The Fund is an equity fund. Investors should be willing and able to assume the risks of equity investing. The value of an investment can fall as well as rise as a result of market and currency movement, and you may not get back the amount originally invested. Further details on the risk factors are included in the Fund's documentation, available on our website.

Past performance does not predict future returns.

ABOUT THE STRATEGY

Launch	15.12.2015
Index	MSCI Golden Dragon
Sector	IA China & Greater China
Managers	Sharukh Malik CFA Edmund Harriss
EU Domiciled	Guinness Greater China Fund

OBJECTIVE

The Guinness Greater 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.

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SUMMARY

In May, the Guinness Greater China Fund (Y class, GBP) fell by 2.3%, while the benchmark, the MSCI Golden Dragon Net Total Return Index (MSCI Golden Dragon Index) rose by 1.7%, and the MSCI China Net Total Return Index (MSCI China Index – not a benchmark for the Fund but which we note due to its bias to China, like the Fund; see page 5 for more details) rose by 0.6%.

During the May Labour Day holidays, 295 million tourists travelled within China, which was 8% higher than last year and 28% higher than 2019 levels. Tourism revenue increased 13% year-on-year and was 14% higher than 2019 levels, meaning tourism spend per capita increased on a year-on-year basis but still remains below pre-Covid levels.

President Xi Jinping visited Europe to meet the leaders of France, Serbia and Hungary. Soon afterwards, Putin met Xi in China.

More loosening measures were announced for the property market. Loans obtained from the Housing Provident Fund had their interest rates cut by 0.25 percentage points. The Fund is a social security savings scheme modelled on the Central Provident Fund in Singapore. It provides loans to employees working in urban areas for property purchases. Both employees and employers contribute to the Fund. In addition, for families buying commercial housing, minimum downpayment ratios were cut to 15% and the interest rate floor was eliminated, allowing mortgage rates to fall further.

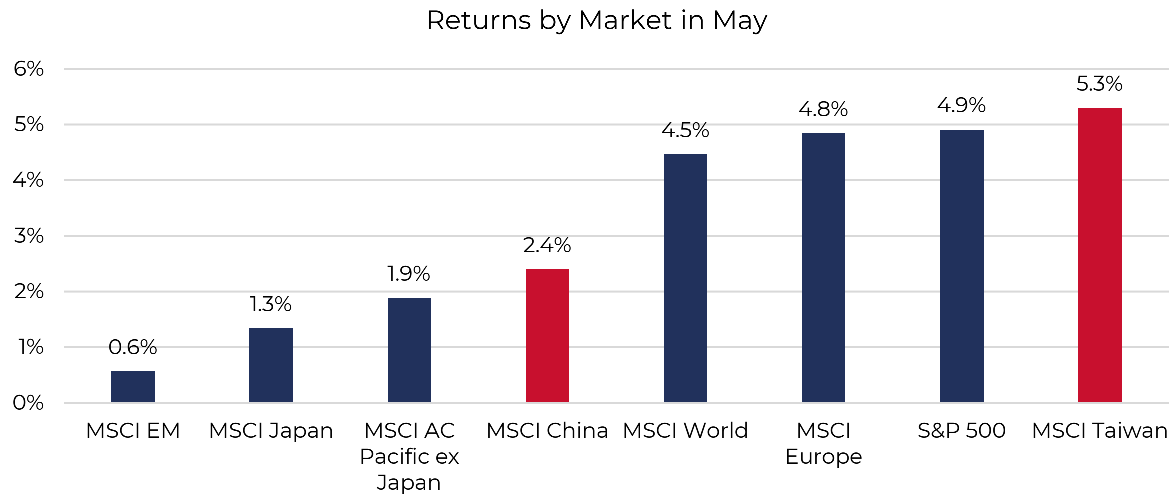
Two large cities, Hangzhou (population 10.4 million) and Xi'an (population 13.0 million), removed practically all restrictions on property purchases. In April, Chengdu (population 16.3 million) did the same.

China's National Integrated Circuit Industry Investment Fund raised a further CNY 344 billion (c.$47bn), which will be used to invest in strategically important semiconductor companies, with a focus on equipment manufacturers. For the first time, the country's state-owned banks contributed to the Fund.

The US increased tariffs on imports from China, targeting goods such as electric vehicles (EVs), lithium-ion EV batteries, solar panels, steel and aluminium. The US is also to lift an exemption on tariffs on solar panels imported from Malaysia, Cambodia, Thailand and Vietnam, countries into which Chinese panel manufacturers have expanded their production.

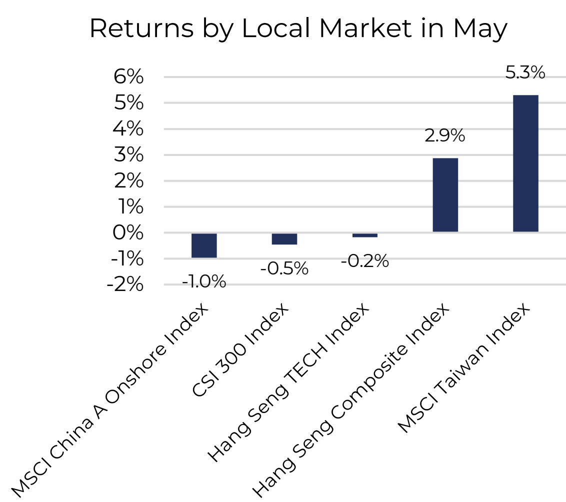
COMMENTARY

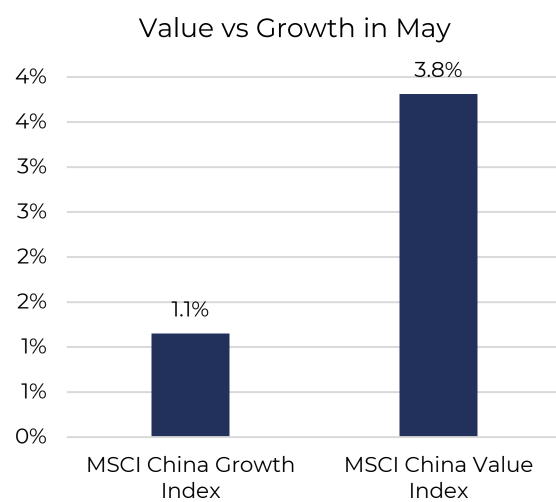
(Performance data in the section in USD terms unless otherwise stated)



Data from 30/04/24 to 31/05/24, returns in USD, source: Bloomberg, Guinness Global Investors calculations

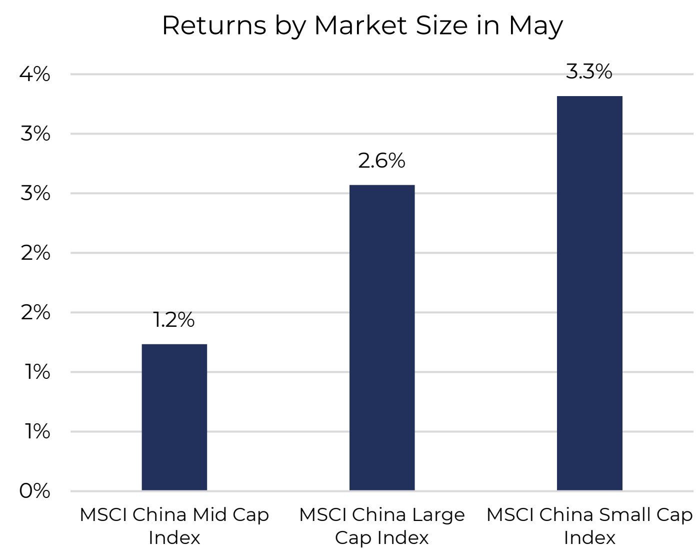
In May, the MSCI China Index rose by 2.4% versus the MSCI World Index which rose 4.5%. The first half of the month saw a strong rally for China, with the market rallying as high as 11% before giving back much of the gains towards the end of the month.





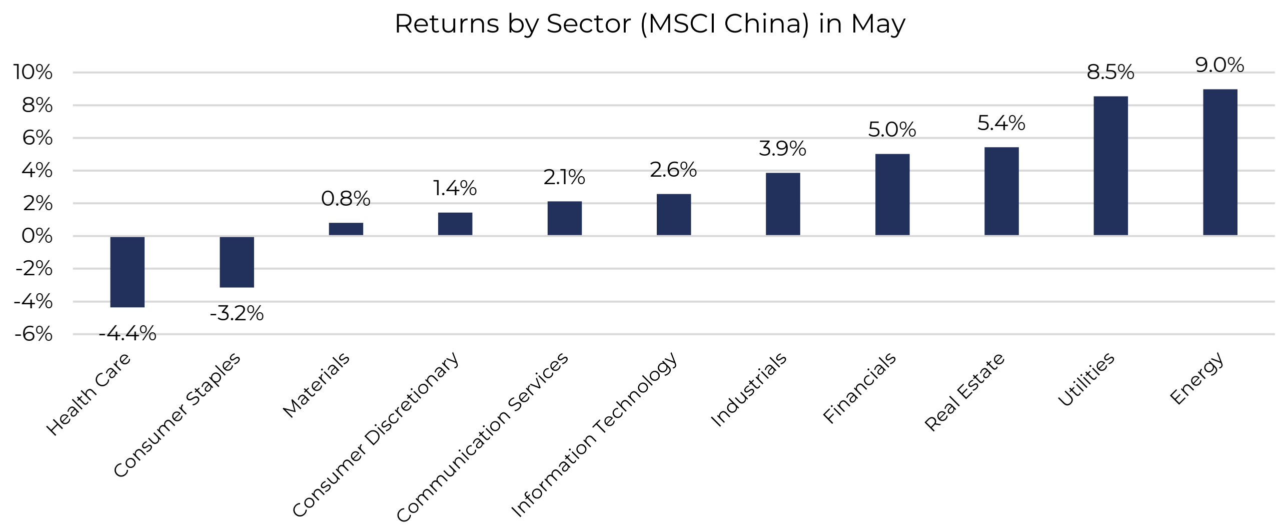
Data from 30/04/24 to 31/05/24, returns in USD, source: Bloomberg, Guinness Global Investors calculations

Offshore stocks, as measured by the Hang Seng Composite Index, rose 2.9%. Onshore stocks, as measured by the MSCI China A Onshore Index, fell by 1.0%. Therefore offshore stocks outperformed their onshore counterparts. The MSCI China Growth Index rose 1.1%, underperforming the value index, which rose by 3.8%.



Data from 30/04/24 to 31/05/24, returns in USD, source: Bloomberg, Guinness Global Investors calculations

Small-caps outperformed, rising 3.3% while mid-caps rose 1.2% and large-caps rose 2.6%.



Data from 30/04/24 to 31/05/24, returns in USD, source: Bloomberg, Guinness Global Investors calculations

In May, the best performing sectors in the MSCI China Index were Energy (total return +9.0%), Utilities (+8.5%) and Real Estate (+5.4%). Strength in the Energy sector was led by the coal names, driven by greater demand for air conditioning in the summer. In the Utilities sector, gas and water companies in 10 cities were permitted by the regulator to increase prices by 10-50%. In Real Estate, further loosening policies from the government led to a rebound for the sector.

The weakest sectors were Health Care (total return -4.4%), Consumer Staples (-3.2%) and Materials (+0.8%). Within Healthcare, the Biosecure Act in the US led to weakness for affected Chinese names. The Act essentially prevents federal agencies from working with companies with links to certain Chinese biotech companies. Weaker names in the Consumer Staples sector were Mengniu Dairy, China Resources Beer and Foshan Haitian.

TRIP TO CHINA

We spent two weeks in China seeing a range of companies across the country.

In Qingdao, we met with **Haier Smart Home,** one of the world's largest household appliances companies. While the company's sales are linked to the domestic real estate cycle, the company is still expecting solid growth. For example, washing machines have an average life cycle of 8-10 years, after which they need to be replaced regardless of how the real estate market is doing. To boost sales, Haier has launched its own trade-in programme under which customers can trade in older products for a discount on new products. Meanwhile, the company is expanding its air conditioning (AC) business to catch up with its larger peers. In the past three years, the research team has doubled within the AC segment and CNY 200m (c.$28m) has been spent on quality control labs. Management aim to grow revenue for the AC business from CNY 46bn in 2023 to CNY 80-90bn by 2028, with operating margins in the segment to expand from c.4% in 2023 to 7-8% in 2028.

Near Hangzhou, we saw a prospective company which manufactures forklifts. The company was relatively early to focus on electric forklifts, and this move is now paying off as revenue and profit growth have accelerated. The company's exports are increasing rapidly and the company's brand is gaining a reputation for quality. Management is aiming for revenue to increase from CNY 16bn in 2023 to around CNY 30bn in three years' time. The company's products are sold in Europe and the US, with management focusing on quality and after-sales service to catch up with its established competitors. We were given tours of two impressive manufacturing sites, as well as a run through of the various models the company sells.

We also saw Hangzhou **First Applied Material,** which is the world's largest manufacturer of solar film, which protects solar modules. While much of the solar industry is in significant oversupply, the imbalance is less pronounced in the solar film segment. Smaller companies are loss-making and are likely to eventually leave the industry, meaning First Applied may increase its market share. The company plans to open two new manufacturing plants in China and one in Vietnam next year.

In Suzhou we visited a plant run by **Shenzhen Inovance Technology**, which makes automation equipment. We saw the high level of automation in the plant, partly driven by the company's own robots. We also communicated some of the reasons behind our proxy voting. We voted against one director because he was an insider on the audit committee and against another director on the grounds that the company does not have a nomination or remuneration committee. In response, the company said it has recently refreshed its board and this year is planning on creating a nomination and remuneration committee.

We met with China's two largest video game developers, **Netease** (in Hangzhou) and **Tencent** (in Hong Kong). With Netease, we discussed the latest quarterly results and the company's approach to shareholder return. With Tencent, the company's video accounts (equivalent to Tiktok) have relatively few ads compared to Douyin and Kuishou, so there is potential for revenue in this segment to increase significantly. On semiconductors, the business has a stockpile of cutting-edge chips which management expect to last a few generations. Tencent's large language model (LLM) *Hunyuan* is being used by all teams as the foundational model, which teams can then tailor according to their specific needs. On capital management, the company argues its shares are undervalued and that higher buybacks and dividends generate a better internal rate of return than other investments at this moment in time.

In Chengdu, we saw **Sinoseal**, which manufactures mechanical seals mostly used in petrochemical applications, with use cases also in pipelines and the nuclear, water and paper industries. The company explained that it has taken market share from foreign competitors in the domestic market by focusing on lower prices, investment in R&D and after-sales service. Management believes that from a technical perspective, their products are now nearly at the same level as their foreign competitors. To increase export sales, the aim is now to catch up on the technical front and then increase brand awareness in countries on the Belt and Road path. On capital management, Sinoseal is cautious on M&A and will not grow 'at all costs'. The dividend frequency has now increased to a semi-annual payment with a higher payout ratio.

Near Chongqing, we met with **Chongqing Fuling Zhacai**, which makes pickled condiments. Due to climate change the company is seeing more volatility in supply of mustard roots. To deal with this greater volatility, when input prices are low the company likes to put mustard roots into storage. But current storage capacity is limited, so the company is building a new state-of-the-art production facility with significantly greater storage capacity. On ESG, we made numerous suggestions on where disclosure could improve and our sense is that we can have a genuine impact on the company's disclosures.

In Guangzhou we saw **Suofeiya Home Collection**, which makes kitchen cabinets and cupboards. Since it is smaller than the primary market, the secondary market (purchases of older homes) is a channel that Suofeiya has not previously focused on. However as the primary market continues to weaken, management now views the secondary market as a growth driver for the business. In contrast to some of its competitors, Suofeiya has much more control of its sales process, which management believes is one of the main drivers behind its good reputation with customers. For example, Suofeiya owns its own software, logistics and after-sales service, whereas some of its competitors use third parties for some of these services. By focusing on good service, the aim is that customers enhance the reputation of the business through word of mouth.

ATTRIBUTION

In May, the Guinness Greater China Fund (Y class, USD) fell by 0.6%, while the benchmark, the MSCI Golden Dragon Index rose by 3.5%, and the MSCI China Index rose by 2.4%.

The MSCI Golden Dragon Index is a weighted average of the MSCI China, Taiwan and Hong Kong indexes. As of the end of May, Taiwan's weight in the Golden Dragon Index was c.36%. In the Fund, we hold two positions in Taiwan which collectively have a weight of c.6.5%. As the MSCI Taiwan Index rose by 5.3% in the month, the MSCI Golden Dragon Index captured more of the stronger performance in Taiwan than the Fund.

The Fund aims to give exposure to the structural growth themes in China. We also allocate to Taiwan, targeting stocks which meet either of the following two criteria:

- Significant exposure to China. We define this as more than 50% of sales from China or more than 50% of assets in China.
- Exposure to the semiconductor industry. While there are semiconductor companies in mainland China, often the quality or the price of the companies can be unattractive relative to the opportunities in Taiwan. In Taiwan there can be many good quality, growing businesses trading at more reasonable prices.

As the Fund is designed around a framework of structural growth in China, we expect therefore our Taiwanese exposure to the Fund to be more limited. We can see this in the composition of the universe, which consists of high-quality companies with exposure to the various themes. Of the universe of 770 stocks, 720 are Chinese and 50 are Taiwanese. Equivalently, 94% of the universe consists of Chinese companies and 6% consists of Taiwanese companies. Therefore the Fund's 6.5% weight to Taiwan broadly reflects Taiwan's weight in the universe.

In May, relative to the MSCI China Index, areas helped the Fund's performance:

- Individual stock performance, led by Ping An Insurance (total return +10.0%), Suofeiya Home Collection (+7.5%) and AIA Group (+6.6%).
- Stock selection in the Health Care sector, driven by Sino Biopharmaceutical (total return +5.2%) and CSPC Pharmaceutical (+4.5%).

In May, the following areas detracted from the Fund's relative performance:

- Outperformance by offshore stocks vs onshore stocks, as the Hang Seng Composite Index rose by 2.9% while the MSCI China A Onshore Index fell by 1.0%. As of the end of March, the Fund was c.25% underweight to stocks listed in Hong

Kong and c.18% overweight to A shares. Therefore the Fund benefited from less of the rally in the Hang Seng Composite than the MSCI China Index.

- Structural underweight to Tencent (total return +4.5%). The Fund takes an equal weight approach, so each position has a neutral weight of 3.2%. As of the end of May, Tencent's weight in the MSCI China Index was 15.5%. Tencent's share price rose 4.5%, so the index benefited much more from Tencent's rally than the Fund.

- Stock selection in the Information Technology sector, driven by Venustech (total return -7.2%), Xinyi Solar (-5.9%), Shenzhen H&T Intelligent (-5.7%) and Hangzhou First Applied Material (-4.8%).

- Stock selection in the Industrials sector, driven by Wuxi Lead Intelligent Equipment (-10.4%), Nari Technology (-4.4%) and Shenzhen Inovance Technology (-1.9%).

- The combined underweight to Materials, Energy and Utilities, where the Fund has no exposure, whereas in the index these sectors have a cumulative weight of 10.3%. The Fund targets quality companies which give exposure to the structural growth themes in China. In our universe, there are no Energy names which give this exposure. The Materials names which were strong in the month were related to metals and cement; these companies do not generally make the quality threshold we target in the Fund. Relevant companies were China Hongqiao (aluminium), Aluminium Corp, China National Building Material and Anhui Conch Cement. The Fund holds no companies in the Utilities sector.

PORTFOLIO SWITCHES

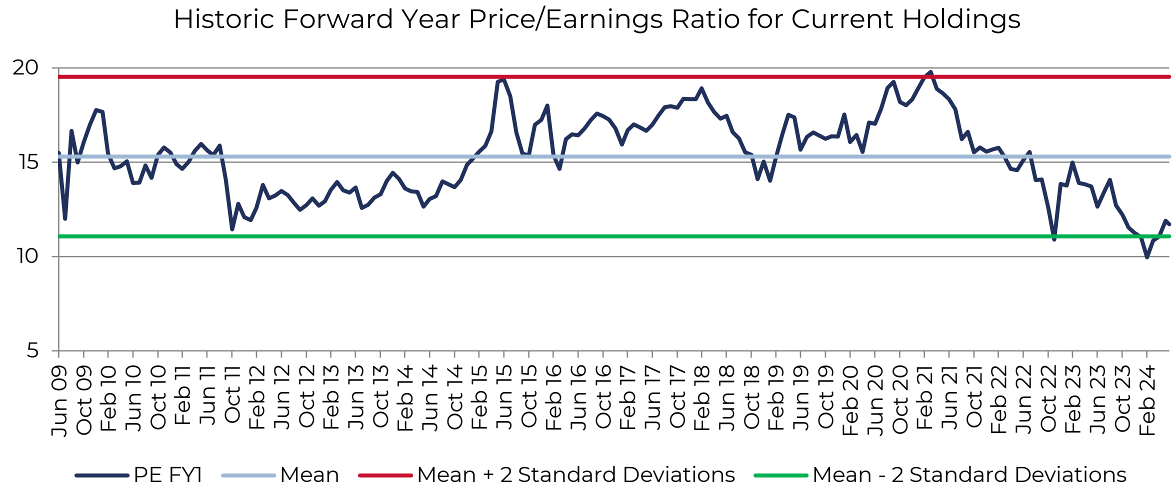
We sold the full position in **China Medical System** following its profit warning at the end of March. CMS reported an unexpected decline in sales in the second half of 2023, as for some of its major drugs the decline in prices was larger than management had previously guided for. The gulf between guidance and reality concerned us, reflecting poor communication from management. Management expects it will take until 2025 for revenue to beat 2022's amount, and until 2026 for net profits to do the same.

For a slightly higher valuation multiple, we initiated a position in **Midea**. Midea is one of the world's largest household appliances companies, selling items such as fridges and dishwashers. It is also one of the world's largest air conditioner manufacturers. The company has a long track record of growing its asset base at a high cash return on capital. We expect revenues and profits to continue to grow, which is attractive in the current economic environment in China.

OUTLOOK

Following our trip to China, we remain of the view that while the economy is weak by China's standards, the quality companies that we are interested in are generally doing well. In contrast to the gloomy macro news, our companies overall have a growth mindset, investing both domestically and internationally to secure future growth. For our manufacturing companies in particular, the general trend is they are moving up the value chain, and from a quality perspective, are catching up to their Western competitors. Export sales are becoming more of a focus for our companies and we expect Chinese companies across the board to become more competitive globally.

Our view is that investors, both domestically and abroad, are significantly undervaluing the high-quality companies in China that we target. These companies have strong balance sheets with relatively little debt, and so can weather the next few years of relative weakness, as China completes its transition away from real estate and towards the new pillar industries. The companies we own give exposure to the structural growth themes in China, and while earnings expectations have been falling, importantly these companies are still expected to grow. Based on consensus analyst estimates, the Fund's holdings in aggregate are expected to grow net income by 25% in 2024 and 12% in 2025. On a valuation basis, the Fund is trading on a forward year price earnings ratio of 11.7x. For the holdings in aggregate, this valuation is one of the lowest levels we have seen since the Financial Crisis, which presents one of the best potential risk-reward ratios we have seen for some time.



Data from 31/12/08 to 18/06/24. source: Bloomberg, Guinness Global Investors calculations. Calculations assume an equally weighted portfolio

Portfolio Managers

Sharukh Malik
Edmund Harriss

GUINNESS GREATER CHINA FUND - FUND FACTS

Fund size	$8.7m
Fund launch	15.12.2015
OCF	0.89%
Benchmark	MSCI Golden Dragon TR

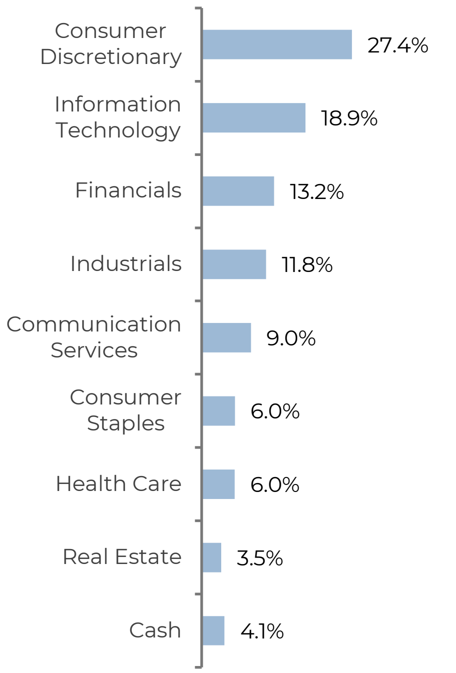
GUINNESS GREATER CHINA FUND - PORTFOLIO

Top 10 holdings

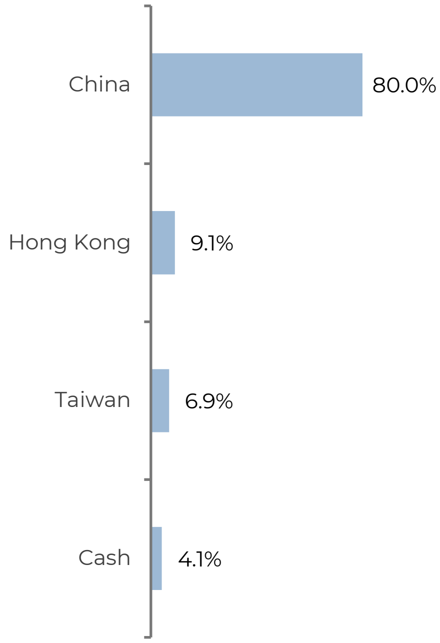
Taiwan Semiconductor	3.8%
Haier Smart Home	3.7%
China Merchants Bank	3.6%
China Overseas Land	3.5%
Ping An Insurance	3.3%
CSPC Pharmaceutical	3.3%
Xinyi Solar	3.2%
Sany Heavy Industry	3.2%
AIA Group Ltd	3.2%
TravelSky Technology	3.2%

Top 10 holdings	34.0%
Number of holdings	31

Sector



Country



Past performance does not predict future returns.

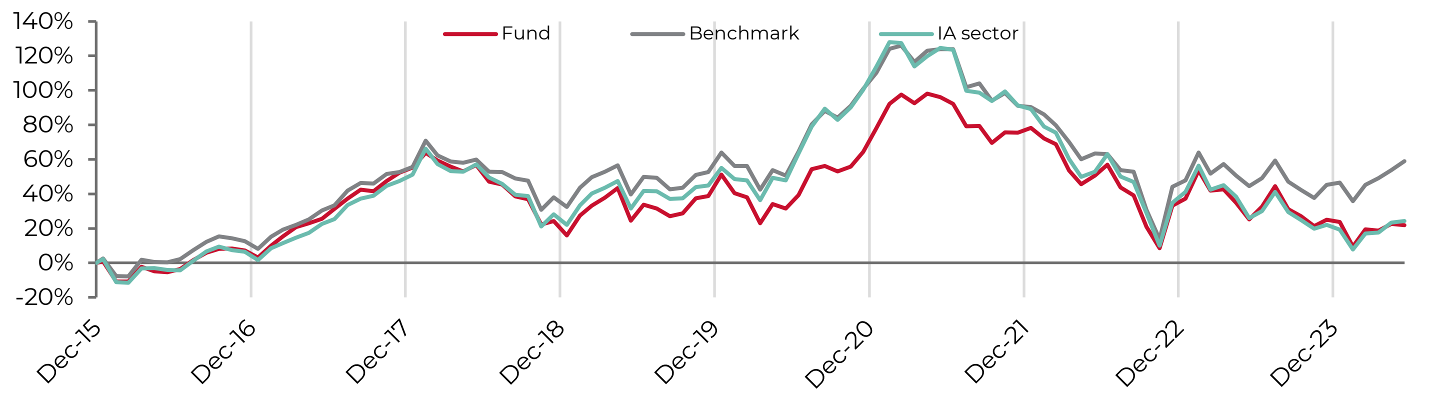
GUINNESS GREATER CHINA FUND - CUMULATIVE PERFORMANCE

(GBP)	1 Month	YTD	1 yr	3 yr	5 yr	10 yr
Fund	-2.3%	-1.3%	-5.2%	-30.8%	-3.1%	-
MSCI Golden Dragon TR	+1.7%	+8.7%	+7.1%	-20.7%	+12.7%	-
IA China/Greater China TR	-0.9%	+4.3%	-4.0%	-38.2%	-6.4%	-
(USD)	**1 Month**	**YTD**	**1 yr**	**3 yr**	**5 yr**	**10 yr**
Fund	-0.6%	-1.5%	-2.6%	-37.8%	-2.1%	-
MSCI Golden Dragon TR	+3.5%	+8.6%	+10.0%	-29.0%	+13.9%	-
IA China/Greater China TR	+0.7%	+4.1%	-1.4%	-44.7%	-5.4%	-
(EUR)	**1 Month**	**YTD**	**1 yr**	**3 yr**	**5 yr**	**10 yr**
Fund	-2.1%	+0.3%	-4.4%	-30.3%	+0.5%	-
MSCI Golden Dragon TR	+1.9%	+10.5%	+8.0%	-20.0%	+16.9%	-
IA China/Greater China TR	-0.8%	+6.0%	-3.2%	-37.7%	-2.9%	-

GUINNESS GREATER CHINA FUND - ANNUAL PERFORMANCE

(GBP)	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Fund	-15.0%	-13.3%	+1.0%	+14.2%	+25.3%	-20.7%	+37.6%	+22.1%	-	-
MSCI Golden Dragon TR	-6.5%	-12.6%	-8.6%	+24.2%	+19.0%	-9.5%	+31.3%	+25.7%	-	-
IA China/Greater China TR	-20.2%	-16.0%	-10.7%	+33.6%	+22.2%	-14.2%	+35.9%	+18.5%	-	-
(USD)	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Fund	-9.9%	-23.0%	+0.1%	+17.9%	+30.4%	-25.3%	+50.4%	+2.3%	-	-
MSCI Golden Dragon TR	-0.9%	-22.3%	-9.5%	+28.2%	+23.8%	-14.8%	+43.8%	+5.4%	-	-
IA China/Greater China TR	-15.4%	-25.4%	-11.5%	+37.8%	+27.1%	-19.2%	+48.7%	-0.7%	-	-
(EUR)	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Fund	-12.9%	-17.9%	+7.7%	+8.1%	+32.8%	-21.5%	+32.3%	+5.5%	-	-
MSCI Golden Dragon TR	-4.3%	-17.3%	-2.6%	+17.6%	+26.1%	-10.5%	+26.3%	+8.6%	-	-
IA China/Greater China TR	-18.3%	-20.5%	-4.8%	+26.4%	+29.4%	-15.1%	+30.6%	+2.3%	-	-

GUINNESS GREATER CHINA FUND - PERFORMANCE SINCE LAUNCH (USD)



Source: FE fundinfo to 31.05.24. 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 current OCF for the share class used for the fund performance returns is 0.89%. Returns for share classes with a different OCF will vary accordingly. Transaction costs also apply and are incurred when a fund buys or sells holdings. The performance returns do not reflect any initial charge; any such charge will also reduce the return.

IMPORTANT INFORMATION

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This report is designed to inform you about Guinness Greater 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. OCFs for all share classes are available on www.guinnessgi.com.

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.

Documentation
The documentation needed to make an investment, including the Prospectus, the Key Investor Document (KID) / Key Investor Information Document (KIID) and the Application Form, is available in English from www.guinnessgi.com or free of charge from:-
• the Manager: Waystone Management Company (IE) Limited (Waystone IE) 2nd Floor 35 Shelbourne Road, Ballsbridge, Dublin D04 A4E0, Ireland: or ,
• the Promoter and Investment Manager: Guinness Asset Management Ltd, 18 Smith Square, London SW1P 3HZ.

Waystone IE is a company incorporated under the laws of Ireland having its registered office at 35 Shelbourne Rd, Ballsbridge, Dublin, D04 A4E0 Ireland, which is authorised by the Central Bank of Ireland, has appointed Guinness Asset Management Ltd as Investment Manager to this fund, and as Manager 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.waystone.com/waystone-policies/

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 KID for Switzerland, the articles of association, and the annual and semi-annual reports can be obtained free of charge from the representative in Switzerland, Reyl & Cie S.A., Rue du Rhône 4, 1204 Geneva, Switzerland. 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.