Guinness China A Share

Investment Commentary – October 2024

RISK

This is a marketing communication. Please refer to the prospectus, supplement and KID/KIID 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 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. The Fund invests only in stocks of companies that are based in, or with significant business activities in China; it is therefore susceptible to the performance of that region. In addition, at least 80% of the assets will be in China A shares, which have a greater participation by retail investors than other markets, so its performance may be more volatile. 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	09.03.2023
Index	MSCI China A Onshore Index
Sector	IA China / Greater China
Managers	Sharukh Malik Edmund Harriss
EU Domiciled	Guinness China A Share Fund

OBJECTIVE

The Fund invests in quality, profitable companies exposed to the structural growth themes we have identified in the China A share market. These themes are built upon changes we have seen in incomes, demographics, production advances and the application of technology in consumer, industrial and infrastructure settings. The Fund is actively managed and uses the MSCI China A Onshore Index as a comparator benchmark only.

CONTENTS

SUMMARY

In the third quarter, the Guinness China A Share Fund (Y class, GBP) rose by 13.7%, while the benchmark, the MSCI China A Onshore Net Return Index (MSCI China A Onshore Index) rose by 14.6%.

In September, the Guinness China A Share Fund rose by 21.5%, while the benchmark rose by 20.6%.

In the quarter, outperformers in the Fund were Ping An Insurance Group, Shenzhen Capchem Technology and G-bits Network Technology. Underperformers were Zhejiang Weixing New Building Materials, Shengyi Technology and Shenzhen Mindray Bio-Medical.

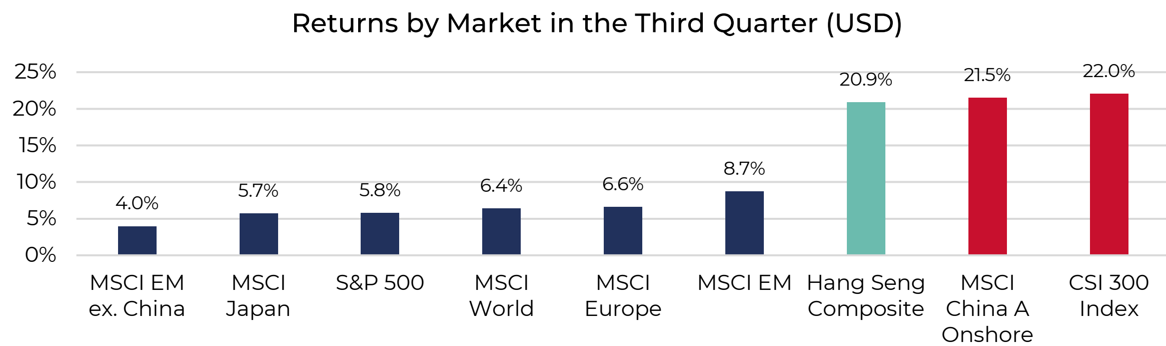
In the quarter, relative to the benchmark, contributors to the Fund's performance were the overweight to the Consumer Discretionary sector and stock selection in the Materials and Communications Services sectors. Detractors from performance were the underweight to the Financials and Real Estate sectors.

In September, relative to the benchmark, contributors to the Fund's performance were a combination of an overweight position and stock selection in the Consumer Discretionary and Industrials sectors. Stock selection in the Information Technology sector also helped. Detractors from performance were the underweight to the Financials and Real Estate sectors.

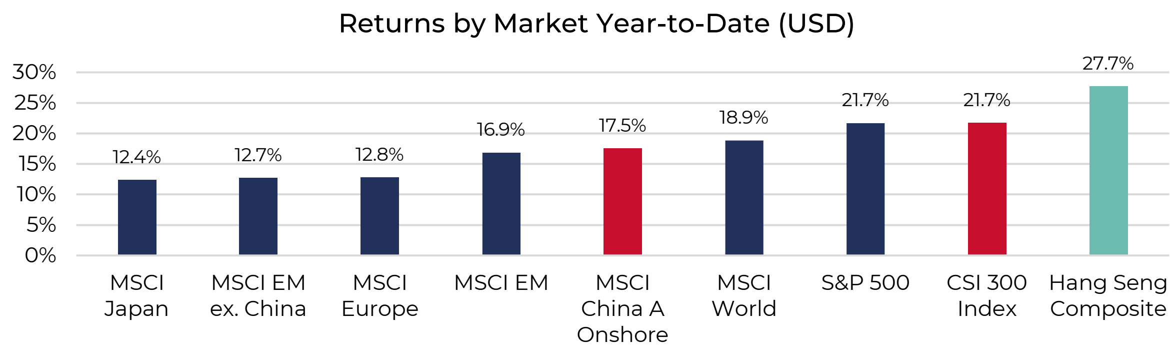
We sold Venustech Group and Wuxi Lead Intelligent Equipment. We bought Shandong Himile Mechanical and Foshan Haitian.

MARKET COMMENTARY

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



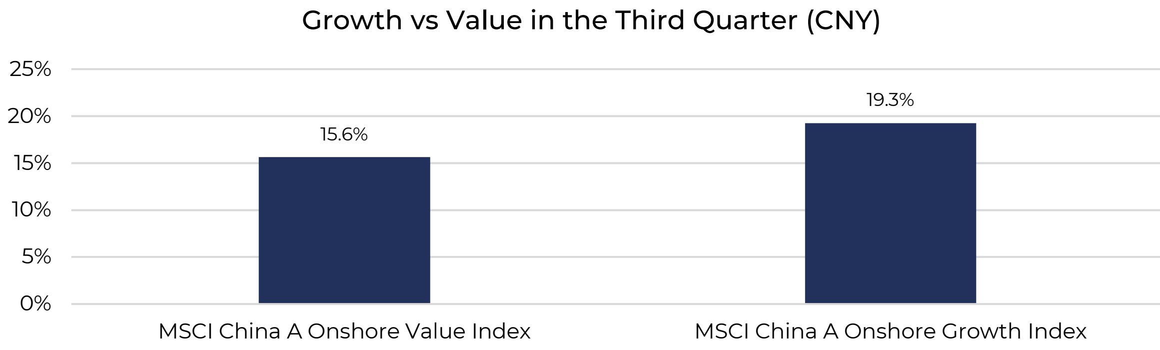
Data from 31/06/24 to 30/09/24, returns in USD, source: Bloomberg, Guinness Global Investors calculations



Data from 31/06/24 to 30/09/24, returns in USD, source: Bloomberg, Guinness Global Investors calculations

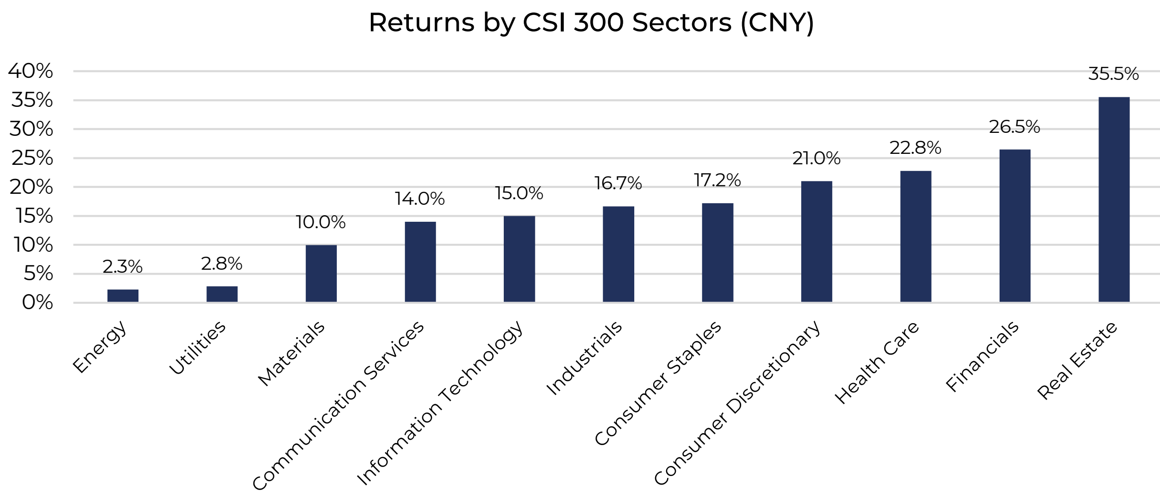
In the third quarter, the MSCI China A Onshore Index rose by 21.5% (in USD) versus the MSCI World Index which rose 6.4%. This means year-to-date the MSCI China A Onshore Index has now risen by 17.5%, slightly behind the MSCI World Index which has risen by 18.9%. Chinese markets trended down in July and August but rallied sharply in September. The weakness in July and August was predominantly driven by weaker macro data with no major government stimulus announced. In September the Federal Reserve in the US cut interest rates, which also led to strength in emerging markets. But it was the unexpected stimulus in China which led to a strong rally in both onshore and offshore markets.

The Politburo recently intensified its efforts to support the economy, adopting a more decisive tone in its latest communiqué. Compared to the vague guidance in April, September's statement calls for stronger countercyclical policies, including interest rate cuts and fiscal measures. This signals a more assertive approach to stabilising the economy which was accompanied by more aggressive easing by the People’s Bank of China (PBOC).



(Data from 30/06/24 to 30/09/24, returns in CNY, source: Bloomberg, Guinness Global Investors calculations)

For the quarter as a whole, growth stocks outperformed as the MSCI Growth Index rose by 19.3% (in CNY) while the value index rose by 15.6%. Since the Fed cut rates, which marked the beginning of the rally, growth did notably outperform, rising 31.2% against the value index which rose 23.4%.



Data from 30/06/24 to 30/09/24, returns in CNY, source: Bloomberg, Guinness Global Investors calculations

The best performing sectors in the third quarter were Real Estate, Financials and Health Care. Real Estate surged after the government unveiled further support for property developers. Financials did well as value plays in the first two months of the quarter, and then also did well in the rally on prospects of capital injections into the large SOE banks. Stronger names in the Healthcare sector were biotech names, after some unexpected opposition to the Biosecure Act in the US led to speculation that the bill may take longer than expected to be signed off.

The weakest sectors were Energy, Utilities and Materials, the first two of which have been more defensive areas year-to-date, but then lagged in the rally.

In the third quarter, the Guinness China A Share Fund (Y class, USD) rose by 20.7%, while the benchmark, the MSCI China A Onshore Index rose by 21.5%. Therefore in the quarter the Fund underperformed the benchmark by 0.8%. In September, the Guinness China A Share Fund (Y class, USD) rose by 24.0%, while the benchmark rose by 23.1%. Therefore in September the Fund outperformed the benchmark by 0.9%.

In the third quarter, relative to the MSCI China A Onshore Index, areas which helped the Fund's performance were:

- Overweight to the Consumer Discretionary sector, with additional good performance from China Tourism Group Duty Free (total return +23.5% in CNY) in particular.
- Stock selection in the Materials sector, driven by Shenzhen Capchem Technology (+42.3%).

- Stock selection in the Communications Services Sector, driven by G-bits Network Technology (+40.5%).

In the third quarter, areas which detracted from the Fund's relative performance were:

- Underweight in the Financials sector. The Fund does not hold any of the large state-owned banks which outperformed.
- Underweight to the Real Estate sector, where the Fund has no exposure.

In September, relative to the MSCI China A Onshore Index, areas which helped the Fund's performance were:

- Overweight to the Consumer Discretionary sector, along with stock selection driven by Suofeiya Home Collection (total return +31.7%), China Tourism Group Duty Free (+26.5%) and Haier Smart Home (+30.0%).
- Overweight to the Industrials sector, along with stock selection driven by Shenzhen Inovance Technology (total return +44.2%) and Zhejiang Weixing New Building Materials (+26.9%).
- Stock selection in the Information Technology sector, driven by Zhejiang Jingsheng Mechanical & Electrical (+36.8%) and Sino Wealth (+29.9%).

In September, areas which detracted from the Fund's relative performance were:

- Underweight in the Financials sector. The Fund does not hold any of the large state owned banks which outperformed.
- Underweight to the Real Estate sector, where the Fund has no exposure.

STOCK COMMENTARY

In the third quarter, the strongest three stocks in the Fund were Ping An Insurance Group (total return +43.1% in CNY), Shenzhen Capchem Technology (+42.3%) and G-bits Network Technology (+40.5%).

Ping An Insurance Group – with equity markets rallying at the end of September, Ping An's stock price also rose due to its equity exposure in its investment book. We have believed this to be a significantly undervalued business weighed by concerns around its investment portfolio and real estate exposures. Operationally, the company has faced headwinds since Covid as the restructuring of its sales force has seen the volume of new life assurance business decline. However, new business revenues have stabilised and are beginning to recover and even after such a large share price jump the stock still yields over 5% on a trailing basis.

Capchem is a manufacturer of battery electrolytes. Though the industry is struggling with overcapacity, Capchem's share price was steadier in the quarter. To mitigate the intensity of competition in China, the company has expanded into Europe where the competitive environment is relatively better. Capchem's electrolyte plant in Poland has an agreement to supply a German customer, lasting from 2025 to 2034, with a total of EUR 1.1 bn of revenue.

In the third quarter, the weakest three stocks in the Fund were Zhejiang Weixing New Building Materials (total return -2.2%), Shengyi Technology (-1.0%) and Shenzhen Mindray Bio-Medical (+2.4%).

Weixing New Building Materials is a manufacturer of plastic pipes with most of its exposure to retail customers in the property market. Given the weakness in the real estate market, it is of no surprise that demand is weak. In the current environment, management is aiming to stay disciplined on pricing for its higher end products but may consider lowering prices on its mass market pipes. Weixing likely gained market share in the second quarter and despite the weak macro environment, transaction value per household grew due to a larger range of products being sold.

Shengyi Technology is one of the world's largest manufacturers of copper clad laminates (CCLs). It gave back some of its gains in the quarter after a strong run in the first half of the year. In its interim results, earnings recovered sharply, driven by greater utilisation rates, rising high-end server demand and price increases.

Mindray is a manufacturer of healthcare equipment and diagnostic tests. The government has announced a trade in program for medical equipment but details have yet to be finalised, meaning hospitals are delaying their procurement schedules. Therefore Mindray's patient monitoring and life support segments were weak. On the other hand, its in vitro diagnostics segment, which is not part of the trade program, saw revenue growth of 28%. We believe that once the final details of the trade in program are released and funding reaches hospitals, demand is likely to recover.

CHANGES TO THE PORTFOLIO

We sold Venustech Group and Wuxi Lead Intelligent Equipment. We bought Shandong Himile Mechanical Mechanical and Foshan Haitian.

Venustech is a cybersecurity company whose largest shareholder is China Mobile. Though cybersecurity standards have been made more stringent in China over the past few years, the industry has struggled. Some local governments, whose incomes are under pressure from the weak property market, have cut budgets for cybersecurity spending. So despite the attractive long-term picture for cybersecurity demand, in the current environment, the entire industry has struggled and has failed to provide the secular growth we look for.

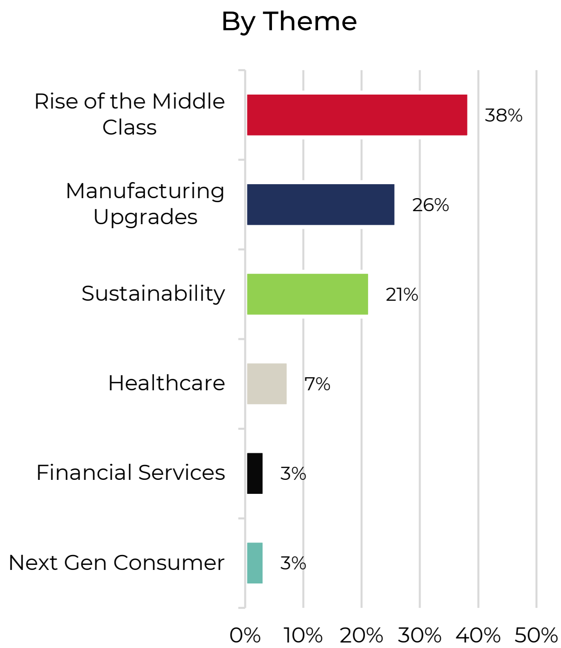
Wuxi Lead Intelligent Equipment is a leading manufacturer of battery production equipment. As the domestic battery market may be in a state of overcapacity, the business has looked to foreign markets for growth. But even here, as EV sales have slowed, some battery manufacturers are cutting on capex. For example, Volkswagen is considering closing factories in Germany while Northvolt is to cut more than 20% of its workforce. Some of Lead Intelligent's customers, whether well known or not, may not be able to pay Lead Intelligent. Given the high receivable days in the business, there is a non-trivial chance that the company has to write off some of its receivables, leading to a hit to earnings.

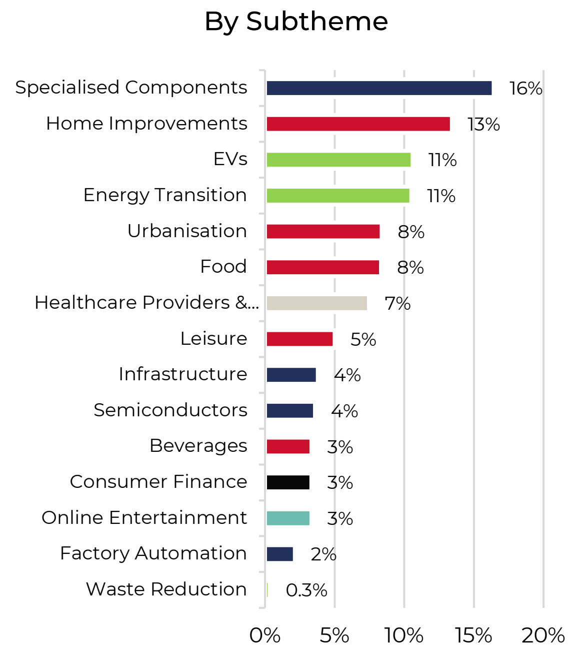
Himile Mechanical is an industrial company that has three segments: 1) tyre moulds, 2) large mechanical components (for gas turbines and wind turbine components) and 3) computer numerical control (CNC) machines. Within the tyre mould segment (55% of revenue in 2023), Himile has more than 30% global market share. As EVs become more popular, tyres are becoming more complex and heavier, which requires more advanced and expensive moulds. As c.80% of tyre demand is replacement demand, this segment provides a steady source of earnings and cashflow for the business. After developing its own precision casting technology for the tyre mould segment, Himile used this knowhow to grow its large mechanical components segment (39% of revenue). This segment mostly consists of components for gas turbine manufacturers (such as General Electric, Siemens and Mitsubishi) and for wind turbines (hubs, bases, and gearbox parts). China is continuing to invest heavily in natural gas capacity and so we expect order growth in this segment to continue. The CNC machine segment is currently small (4% of revenue) but we expect it to become a larger part of the business. Himile has spent 30 years developing its own CNC machines for its tyre mould and mechanical components business, and the company now believes it is good enough to compete in the higher end of the market where China is still reliant on imports.

Foshan Haitian is a famous condiment manufacturer which is well known for its soy sauce. It focuses on the mass market so has high market share, which we expect to continue to grow as the market in China is still fragmented. Throughout the years Foshan Haitian has built up an extensive distribution network around the country which is difficult for many of its competitors to match. Given the business's size, it also benefits from economies of scale. We believe the company has the scope for further earnings growth, driven by emerging areas such as vinegar and cooking wine.

PORTFOLIO POSITIONING

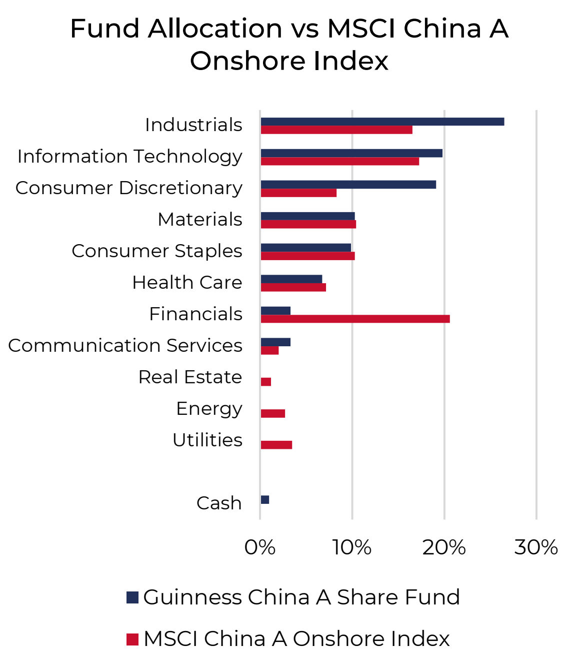
By theme, the Fund's largest exposures are to the Rise of the Middle Class, followed by Manufacturing Upgrades and Sustainability. Important subthemes include Specialised Components, Home Improvements and EVs.

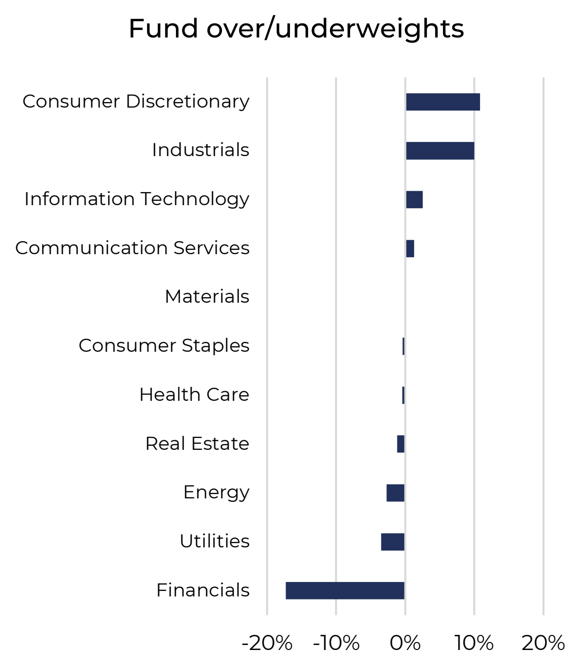




(Data as of 30/09/24, source: Guinness Global Investors calculations. Data assumes portfolio is equally weighted)

On a sector basis, the Fund's largest exposures are to the Industrials, Information Technology and Consumer Discretionary sectors. Relative to the MSCI China A Onshore Index, the Fund is overweight in the Consumer Discretionary and Industrials sectors. The Fund is underweight to the Financials sector.





(Data as of 30/09/24, source: Guinness Global Investors calculations, Bloomberg)

OUTLOOK

We find it helpful to breakdown the support from policymakers into four pillars: monetary, property, equity and consumer support.

Monetary Support - with the Federal Reserve in the US cutting interest rates, China now has room to cut rates without putting significant pressure on the Renminbi. One of the constraints facing policymakers for the past few years was that the Fed was hiking rates and if China cut rates, the interest rate differential would have increased. Hot money would have left China in chase of higher yields in the US, putting pressure on China's capital account and the renminbi. Now this is no longer true as the Fed has started to cut rates, giving the PBOC room to follow. The PBOC cut short-term rates by 0.2 percentage points (pp), larger than the usual 0.1 pp cut. To reduce the incentive for consumers to save the extra cash, deposit rates were also cut. The required reserve ratio was also cut by 0.5 pp, increasing liquidity by around CNY 1 trillion ($143bn). A possible further 0.25-0.50 pp cut is possible. While the cut in the required reserve ratio is helpful, the problem in China is not the supply of credit - rather it is the demand for credit, and so other measures are needed.

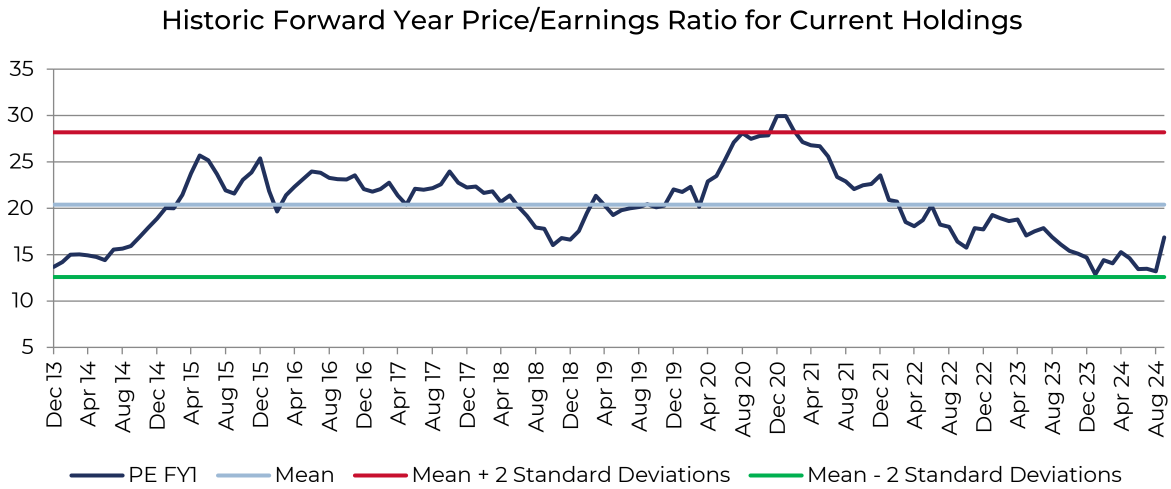
Property Support - existing mortgages have had their interest rates cut by 0.5pp which should reduce annual interest payments by CNY 150 bn ($21bn). But each household is only therefore going to save CNY 200-300 ($30-43) a month. So while the cut helps, it is ultimately going to have a small impact on boosting demand. The downpayment ratio for second homes was cut from 25% to 15%, putting it at the same level as first homes. Over the past few years, each time downpayment ratios have been cut, we have seen a short-term burst in activity which has not lasted. In this case, we do not see why a further cut to downpayment ratios would have a notably different result. Home purchase restrictions were relaxed in tier one cities such as Shanghai and Guangzhou.

Equity Support - a total of CNY 800 bn was set up by the PBOC, of which CNY 500bn ($71bn) is allocated for a swap facility which brokers, funds and insurance companies can use to buy stocks. The remaining CNY 300bn ($43bn) is to fund a re-lending facility, which listed companies and major shareholders can use to fund buybacks and stock purchases.

Consumer Support – in July, the government relocated CNY 150bn ($21bn) away from infrastructure spending and towards a consumer trade-in programme. The programme allows consumers to trade in older products and the government will subsidise some of the costs of purchasing a new replacement. The scheme covers home appliances, kitchen improvements and autos. To put the funding into context, in 2023 retail sales were worth CNY 47.1trn ($6.7trn), so the support is worth 0.3% of retail sales. Consumption vouchers have also started to be given out, which so far can be spent on restaurants, hotels and cinemas. Shanghai is to hand out CNY 500m ($71m) while Chengdu is to hand out CNY 400m ($57m). While these numbers sound impressive, they are worth 0.03-0.04% of retail sales in each city and so are going to have a far smaller impact than the trade-in programme. Overall, the policies make sense, but the scale of support needs to be increased significantly. Reports indicate the government is to issue CNY 2trn ($286bn) of sovereign bonds, which is on top of the CNY 1trn ($143bn) of ultra long-term bonds already announced this year. We expect the proceeds to be spent on scaling up the funding behind the consumer trade in program – some are calling funding to increase from CNY 150bn ($21bn) to CNY 1trn ($143bn), which move support from 0.3% of 2023's retail sales to 2.1%.

Overall, we have seen a clear change in wording from China's political leadership. Monetary easing is necessary to increase demand, but we believe the supply of credit is not the problem – it is demand. Fiscal policy is key and needs to be geared toward the consumer, not just business. The scale of support needs to be expanded significantly and we argue the government has substantial financial resources which are not close to fully deployed. Investors should look for progress on funding – to issue special bonds, China need approval from the National People's Congress which meets later this month. Once approval is finalised, the funding behind the trade-in programmes and consumption vouchers can increase substantially.

From an investment perspective, if the government does scale up its support, this could mark an end to the negative earnings and valuation de-rating cycle in China. We break down prospective returns into changes from valuation multiples, earnings growth and dividends. On valuations, our holdings remain cheap. The Fund's holdings in aggregate are trading at a forward price/earnings ratio of 16.8x which is well below the holdings' 10-year average.



(Data from 31/12/08 to 30/09/24, source: Bloomberg, Guinness Global Investors calculations. A simulation based on actual historic data for the Fund's current holdings. The Fund was launched on 09.03.2023. Calculations assume an equally weighted portfolio)

The longer the time horizon, the more important earnings growth is. Here we point out the Fund's strong track record in this respect. Over the past decade, our holdings in aggregate have grown earnings by 14% a year. Meanwhile the MSCI China A Onshore Index has seen earnings rise by only 1% a year over the past decade, despite all of the economic growth in China. We argue a passive approach is not the best way to get exposure to high-quality, compounding companies in China. Based on consensus analyst estimates, the Fund's holdings in aggregate are expected to grow earnings by 15% a year over the next two years.

Portfolio Managers

Sharukh Malik
Edmund Harriss

GUINNESS CHINA A SHARE FUND - FUND FACTS

Fund size	$0.7m
Fund launch	09.03.2023
OCF	0.89%
Benchmark	MSCI China A Onshore TR

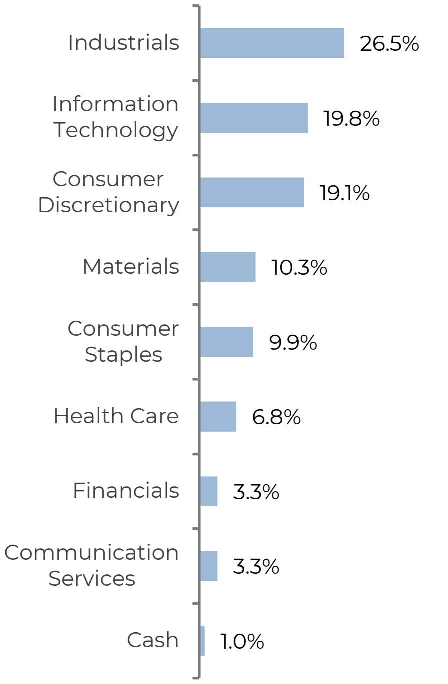
GUINNESS CHINA A SHARE FUND - PORTFOLIO

Top 10 holdings

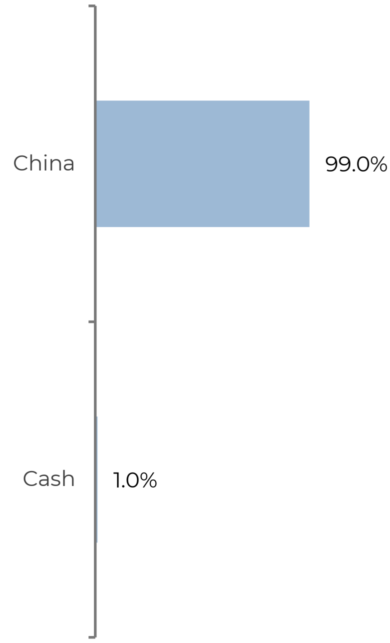
Shenzhen Inovance Technology	3.8%
Shenzhen Capchem Technology	3.6%
Fishan Haitian Flavouring	3.5%
Jiangsu Hengli Hydraulic	3.5%
Sino Wealth Electronic	3.5%
Shanghai Putailai New Energy	3.5%
Zhejiang Weixing New Building	3.5%
Guangzhou Restaurant Group	3.5%
Shenzhen Mindray Bio-Medical Equip.	3.4%
Xiamen Faratronic	3.4%

Top 10 holdings	35.2%
Number of holdings	30

Sector



Country



Past performance does not predict future returns.

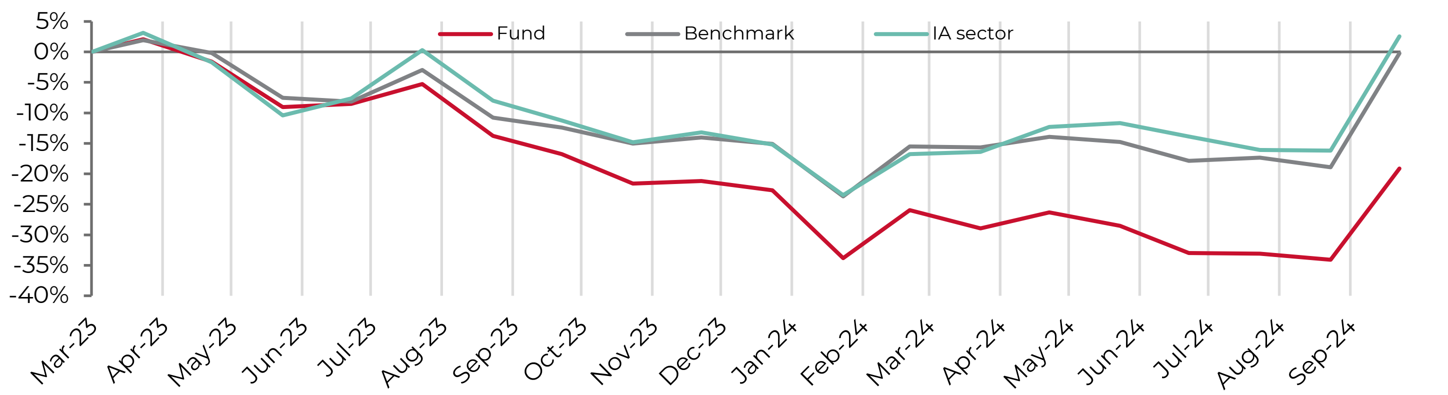
GUINNESS CHINA A SHARE FUND - CUMULATIVE PERFORMANCE

(GBP)	1 Month	YTD	1 yr	3 yr	5 yr	10 yr
Fund	+21.5%	-0.6%	-11.6%	-	-	-
MSCI China A Onshore TR	+20.6%	+11.7%	+3.6%	-	-	-
IA China/Greater China TR	+19.9%	+14.9%	+5.2%	-	-	-
(USD)	**1 Month**	**YTD**	**1 yr**	**3 yr**	**5 yr**	**10 yr**
Fund	+24.0%	+4.6%	-2.8%	-	-	-
MSCI China A Onshore TR	+23.1%	+17.5%	+13.9%	-	-	-
IA China/Greater China TR	+22.4%	+20.9%	+15.6%	-	-	-
(EUR)	**1 Month**	**YTD**	**1 yr**	**3 yr**	**5 yr**	**10 yr**
Fund	+22.9%	+3.6%	-8.0%	-	-	-
MSCI China A Onshore TR	+22.1%	+16.3%	+8.0%	-	-	-
IA China/Greater China TR	+21.4%	+19.7%	+9.6%	-	-	-

GUINNESS CHINA A SHARE FUND - ANNUAL PERFORMANCE

(GBP)	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Fund	-	-	-	-	-	-	-	-	-	-
MSCI China A Onshore TR	-	-	-	-	-	-	-	-	-	-
IA China/Greater China TR	-	-	-	-	-	-	-	-	-	-
(USD)	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Fund	-	-	-	-	-	-	-	-	-	-
MSCI China A Onshore TR	-	-	-	-	-	-	-	-	-	-
IA China/Greater China TR	-	-	-	-	-	-	-	-	-	-
(EUR)	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Fund	-	-	-	-	-	-	-	-	-	-
MSCI China A Onshore TR	-	-	-	-	-	-	-	-	-	-
IA China/Greater China TR	-	-	-	-	-	-	-	-	-	-

GUINNESS CHINA A SHARE FUND - PERFORMANCE SINCE LAUNCH (USD)



Source: FE fundinfo to 30.090.24. 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

Issued by Guinness Global Investors, a trading name of Guinness Asset Management Limited, which is authorised and regulated by the Financial Conduct Authority.

This report is designed to inform you about Guinness China A Share 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, Supplement, 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 SwitzerlandReyl & 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.