Guinness Greater China

2024 Annual Review & Outlook

RISK

This is a marketing communication. Please refer to the prospectus, supplement, 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 2024, the Guinness Greater China Fund rose by 6.4% (Y class, GBP) while the MSCI Golden Dragon Net Total Return Index ("MSCI Golden Dragon Index") rose by 24.7% and the MSCI China Net Total Return Index ("MSCI China Index") rose by 21.6%. Therefore, the Fund underperformed the MSCI Golden Dragon Index by 18.3 percentage points and underperformed the MSCI China Index by 15.2 percentage points.

The MSCI Golden Dragon Index is a weighted average of the MSCI China, Taiwan and Hong Kong indexes. As of Dec-24, Taiwan's weight in the MSCI Golden Dragon Index was c.38%. In the Fund, we hold two positions in Taiwan which collectively have a neutral weight of c.6.6%. As the MSCI Taiwan was very strong relative to Chinese markets, the MSCI Golden Dragon Index captured much more of the rally in Taiwan than the Fund.

In 2024, relative to the MSCI China Index, the Fund benefited from stock selection in the Consumer Staples and Consumer Discretionary sectors. Detractors were the underweight position in Tencent, not holding the large state-owned banks in the Financials sector, and no exposure to the Materials, Energy and Utilities sectors.

In the fourth quarter, relative to the MSCI China Index, the Fund benefited from stock selection in the Consumer Discretionary sector, a combination of the overweight position and stock selection in the Information Technology sector, and lack of exposure to the Materials sector. Detractors included stock selection in the Financials and Industrials sectors, and a combination of a slight underweight and stock selection in the Healthcare sector.

In the Fund, the strongest stocks in 2024 were Geely, TSMC and China Merchants Bank. The weakest names were CSPC Pharmaceutical, Xinyi Solar and Baidu.

We sold China Medical System, Venustech Group and Wuxi Lead Intelligent Equipment. We bought Midea and Haitian International.

On estimated 2024 earnings, the Fund is trading on a price earnings ratio of 11.7x. Despite the Fund's low exposure to real estate and the banks, our companies are still facing the "China" macro discount.

Over the past 10 years, our holdings have grown earnings by 8% a year. This compares favourably to the MSCI China Index, where earnings have actually contracted by 1% a year over the past decade. Based on consensus analyst estimates, the Fund's holdings in aggregate are expected to grow earnings by 12% a year over the next two years. This compares favourably to the MSCI World Index, where earnings are expected to grow by 8% a year over the same period. Though the Fund does not have a distribution share class, the expected 2024 dividend yield of our companies is 3.0%. So in total, we argue that a combination of a potential valuation re-rating, long term earnings growth and an attractive dividend yield make the Fund compelling for investors.

COMMENTARY

(Performance data in the section in USD terms)

(Source – Bloomberg, Guinness calculations. Performance in USD. Data from 31/12/23 to 31/12/24)

In January, the MSCI China Index sold off by 10.6% as macro data for December came in weaker than expected and no significant government stimulus was announced. In particular, the small and mid cap stocks sold off sharply while large cap stocks outperformed. This was due to the buying patterns of the "National Team", which represents state funds. To support the market the National Team started to buy local ETFs in mid-January but most of the buying was concentrated in ETFs tracking the CSI 300 Index, which tracks the largest 300 China A shares. Retail investors followed the National Team's lead, selling small- and mid-cap stocks, and rotating into large cap stocks. In February the National Team stepped up the size of its support and began to diversify its purchases, buying more ETFs tracking small and mid-cap stocks. Therefore there was a very strong rally in February as retail investors moved back into small and mid-cap stocks. The government also made it harder to conduct short selling, which reduced selling pressure on the market. Overall, the MSCI China Index rose by 8.4% in February.

In March, markets stabilised - there were no major events but the macro data covering January and February was generally better than expected. Markets rebounded in April and for the first half of May, before gradually falling over the summer as weak macro data was not followed by major government stimulus.

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 surge in both onshore and offshore markets. We saw a clear change in wording from China's political leadership and monetary and fiscal policies were loosened. With the Federal Reserve cutting interest rates, China had more room to lower its own rates without exacerbating capital outflows or putting significant strain on the Renminbi (holding all other factors constant). The People's Bank of China (PBOC) cut short-term rates by 0.2 percentage points, which was a larger-than-usual cut. It also lowered the required reserve ratio (RRR), injecting approximately CNY 1 trillion ($138bn, assuming USDCNY 7.25) of liquidity into the economy. But the underlying issue in China is weak demand for credit and so we viewed the RRR cut as not very effective.

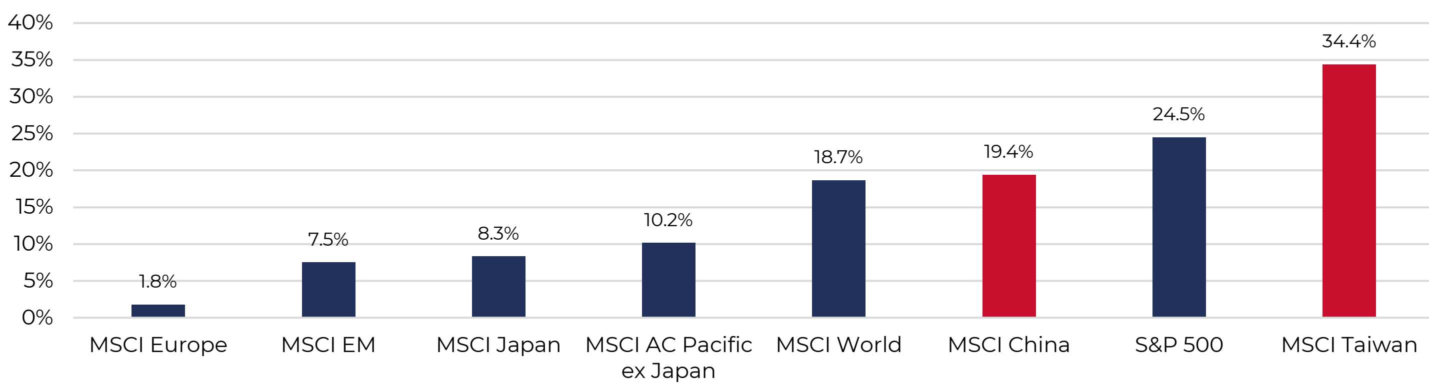
It is demand for credit which is the issue and here the fiscal policies aimed towards the property market and consumer are relevant. In the property sector, mortgage interest rates were reduced which were expected to save households CNY 150bn ($21bn) annually. But the impact on demand is expected to be limited as each household is likely to save only CNY 200-300 ($28-41) a month. The government also relaxed down payment ratios for second homes, although previous efforts in this area have only led to short-term boosts.

For the consumer, a trade-in program was introduced earlier in the year for older products, with the aim of stimulating spending. CNY 150bn ($21bn) of subsidies was available, allowing consumers to upgrade older products such as household appliances and passenger vehicles. Consumption vouchers were also handed out in some cities, the proceeds of which were spent on outdoor activities. While this was a start we argued the measures were modest in scale, representing only a small percentage of retail sales. To significantly boost economic growth, the government will have to scale up its support.

Further significant support for the consumer was not forthcoming and so markets sold off in October and November. We do highlight, however, other forms of policy easing have been ongoing. In November, the government announced CNY 10tn ($1.4tn) of funding for debt swaps. Of this amount, CNY 6tn ($0.8tn) was new, while the other CNY 4 tn ($0.6tn) was re-allocated from the quota for existing local government bonds. The funding allowed local governments to issue bonds to replace existing debt. Existing debt is generally less transparent and is mostly held through other entities called local government financing vehicles (LGFV), which is considered as off-balance sheet debt. The debt swap should reduce the interest rate burden on local governments, freeing up funds for spending to support the real economy. To give more context to this point, many local governments were, and still are, facing budget pressures. A substantial portion of their tax receipts are derived from land sales and given the weak property market, tax income from this channel has fallen. Land sales revenue fell by 30% in 2022-2023 and year-to-date (as of Oct-24), land sales revenue had fallen a further 23% and tax revenue had fallen 5%. As a result, local governments have generally been cutting back on spending such as by cutting salaries for staff. They have also been more active on finding new sources of revenue e.g. administrative fines on individuals and companies for fairly trivial oversights, and more aggressive tax collection. To add to the pressure, in some provinces the interest burden on LGFV debt takes up a large portion of local government revenue. In Guangxi, Chongqing and Gansu, the interest burden accounts for ~35-40% of local government revenue

The debt swap should reduce some of the budgetary pressure local governments are facing, as off-balance sheet debt is more expensive than local governments bonds. So the debt swap is expected to reduce the interest burden because local governments are to pay lower interest rates on bonds. This should free up cash to fund daily expenses e.g. pay civil servants on time, pay suppliers in a more timely fashion. The Ministry of Finance estimates the interest burden may fall by ~CNY 500-600bn ($69-83bn) over the next five years. Taking the midpoint and assuming this is split equally each year, an annual saving of CNY 110bn ($15bn) is worth 0.09% of 2023's GDP. However as Michael Pettis points out, the cost savings enjoyed by local governments through lower interest rates will be offset by lower interest income for the banks, so the net effect on the overall is very marginal.

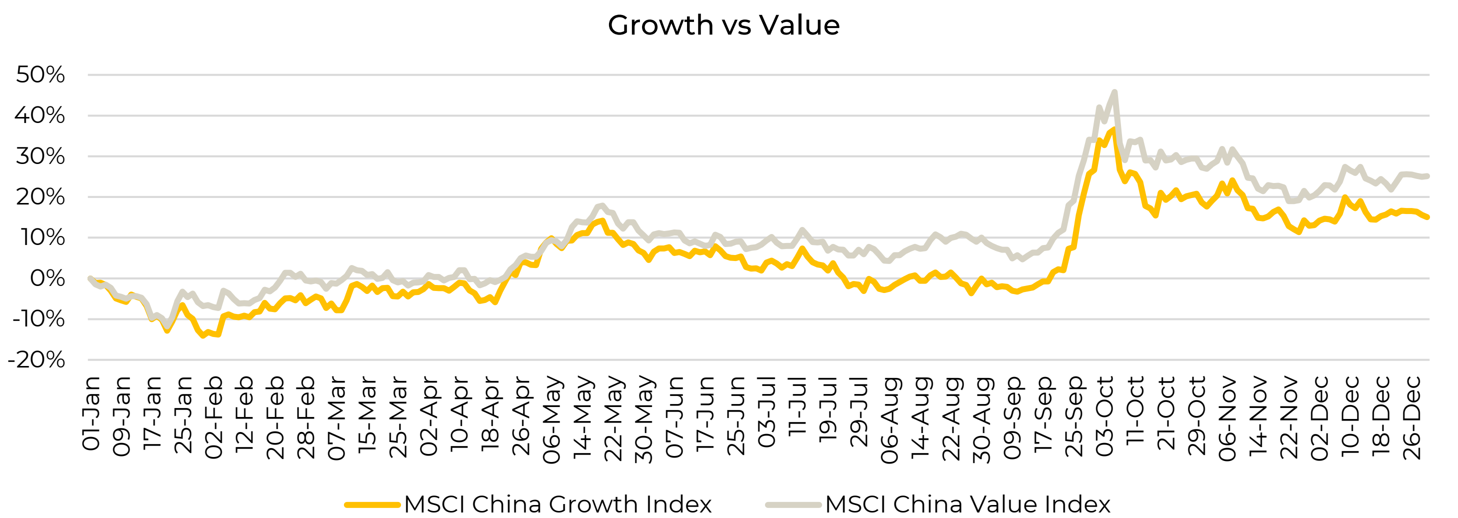
Returns by Market in 2024



(Source – Bloomberg, Guinness calculations. Performance in USD. Data from 31/12/23 to 31/12/24)

Given China's surge in September, it ended the year as one of the better markets. In 2024, the MSCI China Index rose by 19.4%, ahead of the MSCI World Index which rose by 18.7%.

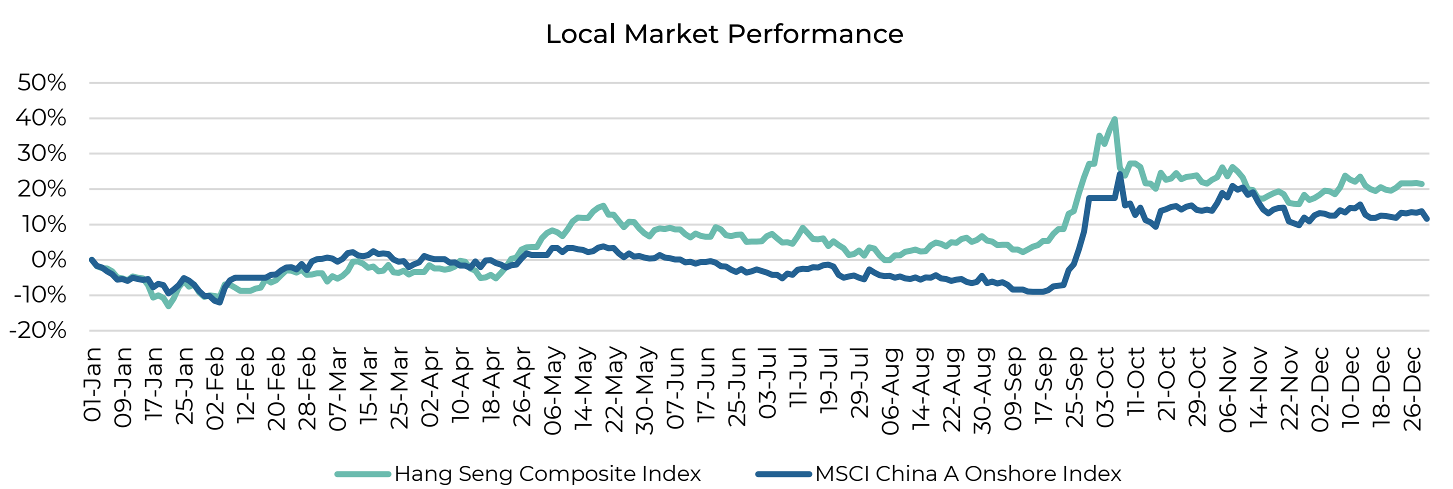
Taiwan was the strongest major market, rising 34.4%. The market is tech-heavy as is the MSCI Taiwan Index where the Information Technology sector accounts for 80% of the market. Much of this is from TSMC which has a 53% weight in the index – for comparison, the next largest stock is Hon Hai Precision with a 5% weight. Given the surge in AI investments and TSMC's positioning as one of the few foundries worldwide with the capability to make the required cutting edge chips, the stock has done well. Other Taiwanese component manufacturers and assemblers have also established competitive advantage in their particular niches. Though TSMC contributed to close to 80% of Taiwan's rally in the year, other smaller contributors included Hon Hai Precision, Mediatek, Delta Electronics and Quanta Computer.



(Source – Bloomberg, Guinness calculations. Performance in USD. Data from 31/12/23 to 31/12/24)

In 2024, value stocks again outperformed growth stocks. The MSCI China Value Index rose by 25.1% compared to the MSCI China Growth Index which rose by 15.0%. As the chart above shows, value outperformed noticeably in months in which Chinese markets were weak. Investors flocked to cheaper and/or more defensive parts of the market. In particular, the large state-owned banks, which trade at a significant discount to the rest of the market, were in demand due to their low valuations and high dividend yields. When government stimulus was announced in September, growth did slightly outperform value and in the proceeding drop, growth and value fell broadly in line.

As a reminder, the Fund targets quality, profitable companies which give exposure to the structural growth themes in China. So in an environment where low quality stocks outperform, many of which are classed as value, we would not expect the Fund to outperform.



(Source – Bloomberg, Guinness calculations. Performance in USD. Data from 31/12/23 to 31/12/24)

Onshore markets, as measured by the MSCI China A Onshore Index, underperformed offshore markets as measured by the Hang Seng Composite Index. In 2024, the MSCI China A Onshore Index rose by 11.7% compared to the Hang Seng Composite Index which rose by 22.1%.

(Source – Bloomberg, Guinness calculations. Performance in USD. Data from 31/12/23 to 31/12/24)

There was a significant divergence between small- and mid-caps, and large caps. Large caps, as measured by the MSCI China Large Cap Index, rose by 20.8%. The corresponding small-cap index rose by 6.7% and the mid-cap index rose by 10.4%. Part of the reason for the divergence was due to the outperformance of value stocks. The large state-owned banks were a clear beneficiary of this trade, and so large caps did very well. Smaller companies have been perceived to be less defensive in China's current economic weakness too, so lagged.

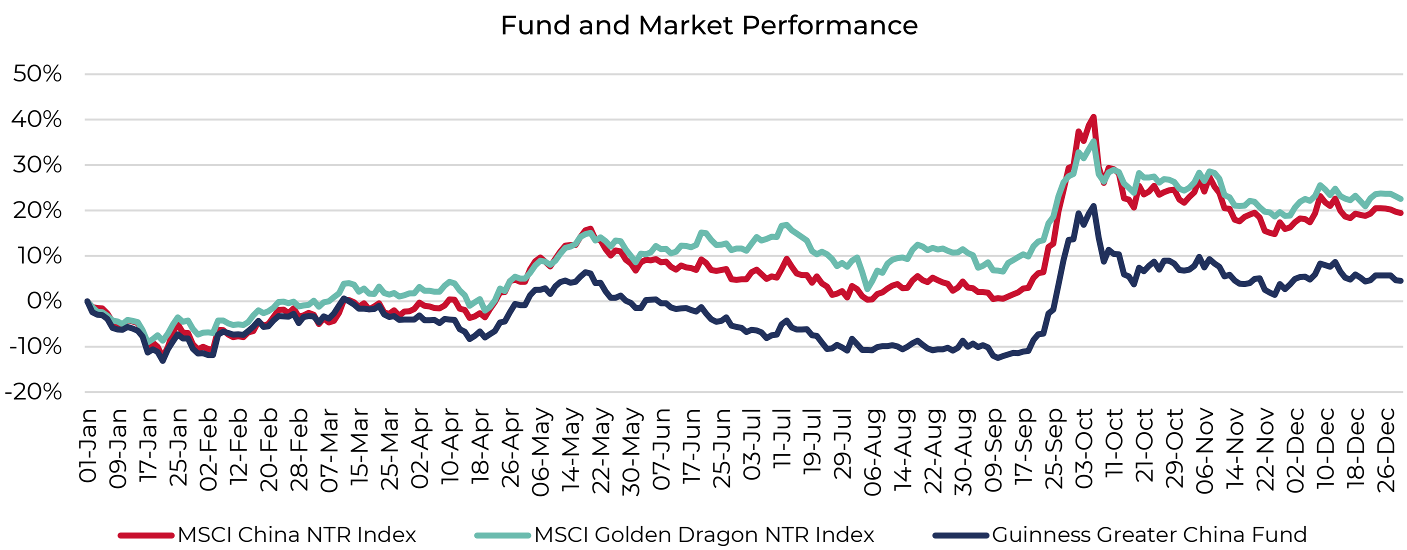
(Source – Bloomberg, Guinness calculations. Performance in USD. Data from 31/12/23 to 31/12/24)

The strongest sectors were Financials (total return +47.7%), Information Technology (+41.2%) and Communication Services (+27.7%). Within Financials, the large state-owned banks were outperformers, benefiting from the demand for value stocks. The banks' low valuations and high dividend yields made them very attractive in a risk-off environment. Additionally, the large insurance companies benefited from the same characteristics, though their valuations were not as low. Brokers also rallied after the September stimulus as trading volumes in equity markets surged. In the Information Technology sector, the largest contributors to performance were Xiaomi, Cambricon Technologies and AAC Technologies. In the Communication Services sector, Tencent was the primary contributor to strength. In a weak macro economic environment Tencent's positive earnings revisions made it stand out relative to most companies in China. Its video accounts have relatively few ads compared to Douyin and Kuaishou, so the company has room to significantly increase revenue in this area.

The weakest sectors were Health Care (total return -18.9%), Real Estate (-7.5%) and Consumer Staples (-6.0%). In the Health Care sector, the Biosecure Act in the US led to weakness for affected Chinese names. The Act does not allow federal agencies from working with companies with links to certain Chinese biotech companies. Also within the Health Care sector, pharmaceuticals with exposure to price cuts for generic drugs were also weak. Given the ongoing contraction in the Real Estate sector, it should be of no surprise that the sector was weak. The weaker names in the Consumer Staples sector were Nongfu Spring, Kweichou Moutai and JD Health.

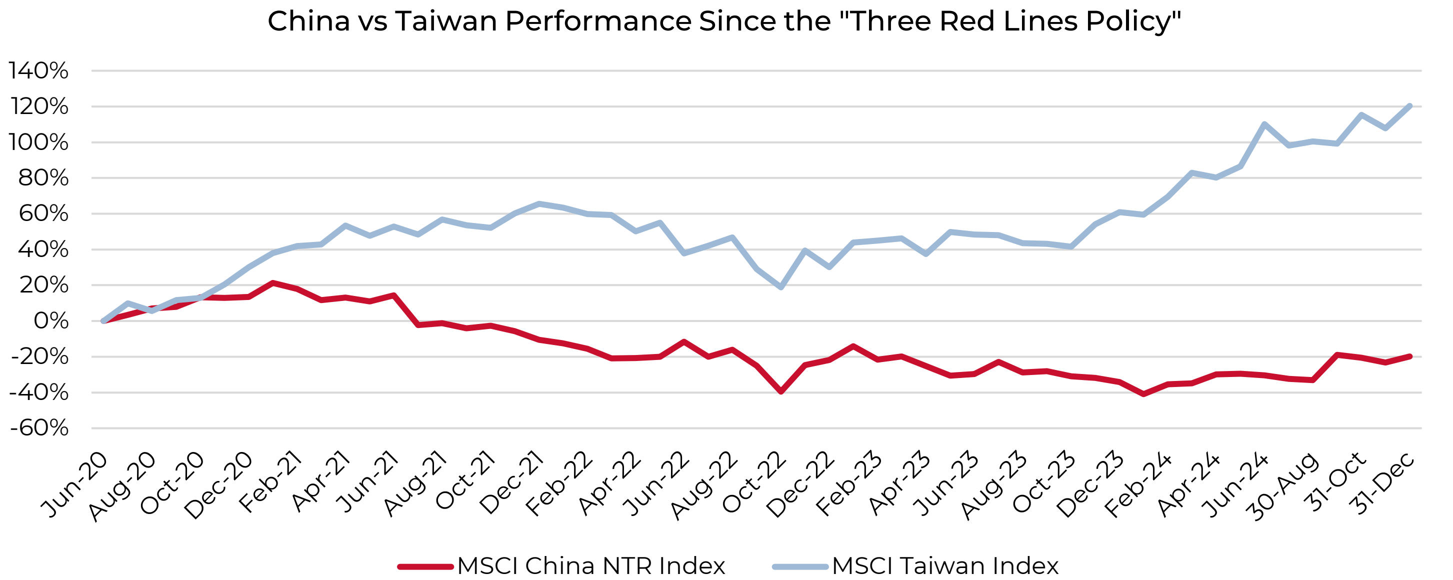
ATTRIBUTION

In 2024, the Guinness Greater China Fund rose by 4.5% (in US dollar terms) while the MSCI Golden Dragon Index rose by 22.5% and the MSCI China Index rose by 19.4%. Therefore, the Fund underperformed the MSCI Golden Dragon Index by 18.0% and underperformed the MSCI China Index by 14.9%.



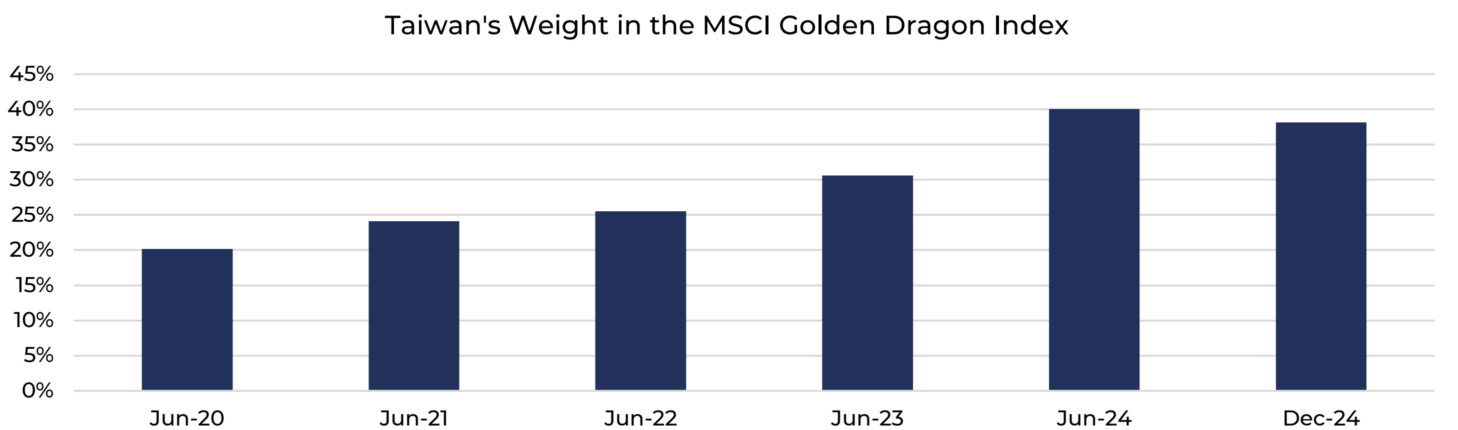
(Source – Bloomberg, Guinness calculations. Performance in USD. Data from 31/12/23 to 31/12/24)

The MSCI Golden Dragon Index is a weighted average of the MSCI China, Taiwan and Hong Kong indexes. As of the end of December, Taiwan's weight in the Golden Dragon Index was ~38%. Over the past four and a half years, as mainland China has been transitioning its economy away from real estate and towards the new pillar industries, mainland markets have fallen. Meanwhile Taiwan, with its large weighting to tech, has performed much better, boosted more recently by the surge in AI related stocks. As a result, over the past four years the MSCI Taiwan Index has risen by 120.3% while the MSCI China Index has fallen by 19.8%.



(Data from 30/06/20 to 31/12/24, returns in USD, source: Bloomberg, Guinness Global Investors calculations)

Therefore, Taiwan's weight in the MSCI Golden Dragon Index has nearly doubled over the period, from 20.1% in Jun-20 to 38.2% in Dec-24.



(Data from 30/06/20 to 31/12/24, source: MSCI, Guinness Global Investors calculations)

In the Fund, we hold two positions in Taiwan which collectively have a neutral weight of ~6.4%. As the MSCI Taiwan Index has risen by 34.4% year-to-date, the MSCI Golden Dragon Index has captured far more of the stronger performance in Taiwan than the Fund.

Relative to the MSCI China Index, areas which helped the Fund's performance in 2024 were:

- Stock selection in the Consumer Staples sector, driven by Inner Mongolia Yili (total return +14.6%) and Chongqing Fuling Zhacai (-1.5%). Both outperformed the sector which fell 6.0%.

- Stock selection in the Consumer Discretionary Sector, driven by Geely (+77.7%), Pinduoduo (not held, -33.7%), Haier Smart Home (+29.9%), Suofeiya Home Collection (+10.2%) and Midea Group.

Areas which detracted from the Fund's relative performance in 2024 were:

- Within the Communications Services sector, a combination of the underweight to the sector and stock selection, driven by Tencent (+44.0%) and Baidu (-29.2%). The Fund is run on a broadly equal-weight basis and so each position has a neutral weight of 3.3%. As of the end of December, Tencent's weight in the MSCI China Index was 16.4%, making it the largest stock by far in that index. Tencent's share price rose by 44.0% so the index benefited much more from Tencent's rally than the Fund. We estimate that of the Fund's 14.9% underperformance relative to the MSCI China Index, approximately 5.0% can be attributed to the Fund's underweight in Tencent.

- Underweight to Financials, and more specifically the underweight to the large state-owned enterprise (SOE) banks. The Fund does not hold any of the large SOE banks which have been significant outperformers as a value play. We do not own these large SOE banks as they do not give exposure to the long-term structural growth themes in China. We estimate that of the Fund's 14.9% underperformance relative to the MSCI China Index, at least 4.5% can be attributed to the underweight in the large SOE banks.

- 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 8.4% (as of year-end). 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 Material names which have been strong this year are related to metals and cement – these companies do not generally make the quality threshold we target in the Fund. Relevant companies are Zijin Mining, China Hongqiao (aluminium), Aluminium Corp, Jiangxi Copper and Zhaojin Mining. The Fund holds no companies in the Utilities sector. We estimate that of the Fund's 14.9% underperformance relative to the MSCI China Index, ~1.7% can be attributed to the Fund's lack of exposure to the Materials, Energy and Utilities sectors.

- Therefore, of the Fund's 14.9% underperformance relative to the MSCI China Index, a total of 11.2% can be attributed as follows:

    - ~5.0% can be attributed to the underweight position in Tencent.

    - ~4.5% can be attributed to the underweight in the large SOE banks.

    - ~1.7% can be attributed to the Fund's lack of exposure to the Materials, Energy and Utilities sectors.

- Were these areas to underperform the market, we would expect the Fund's overweight to work in its favour.

- Of the Fund's remaining underperformance, stock specific drags were Venustech, Wuxi Lead Intelligent Equipment and China Medical System. All three were sold and are discussed in the next section.

- Additionally, we point out the Fund's overweight to growth stocks, the onshore markets and small-and -mid caps worked against it. As discussed earlier:

    - The MSCI China Growth Index rose by 15.0% while the corresponding Value Index rose by 25.1%. The Fund is overweight to growth stocks.

    - The MSCI China A Onshore Index rose by 11.7% compared to the Hang Seng Composite Index which rose by 22.1%. The Fund is 17% overweight to the onshore market which worked against it.

    - The small cap index rose by 6.7% and the mid cap index rose by 10.4%. Meanwhile, the large cap index rose by 20.8%. The Fund is overweight to small- and mid-cap stocks.

In the fourth quarter, the Guinness Greater China Fund fell by 7.9% (in US dollar terms) while the MSCI Golden Dragon Index fell by 4.0% and the MSCI China Index fell by 7.7%. Therefore, the Fund underperformed the MSCI Golden Dragon Index by 3.9% and underperformed the MSCI China Index by 0.2%.

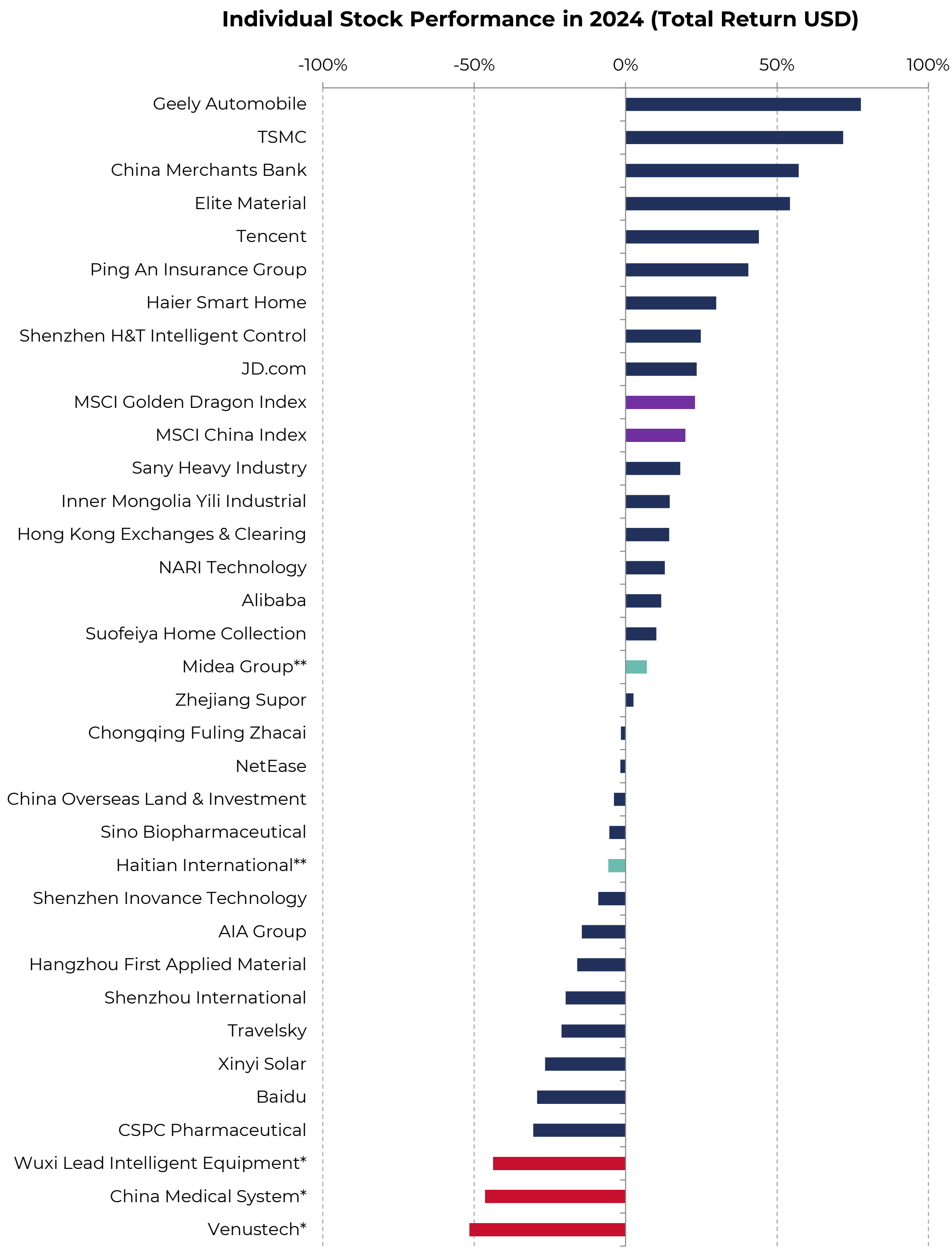
In the fourth quarter, relative to the MSCI China Index, areas which helped the Fund's performance were:

- Stock selection in the Consumer Discretionary sector, driven by Alibaba (-20.1%, held but Fund underweight), Pinduoduo (not held, -28.1%), Geely (+21.7%) and Meituan (not held, -11.8%).
- In the Information Technology sector, a combination of the overweight position and stock selection, driven by Shenzhen H&T Intelligent (+52.6%) and Elite Material (+33.5%).
- Underweight to the Materials sector, where the Fund has no exposure.

In the fourth quarter, relative to the MSCI China Index, areas which detracted from the Fund's relative performance were:

- Stock selection in the Financials sector, driven by AIA Group (-19.1%), Hong Kong Exchanges and Clearing (-9.6%), and Ping An Insurance Group (-8.2%). Additionally, the Fund's underweight to the large SOE banks, which outperformed and where the fund has no exposure, worked against the Fund.
- Stock selection in the Industrials sector, driven by Sany Heavy Industry (-16.1%), Haitian International (-15.6%), Nari Technology (-11.9%) and Shenzhen Inovance Technology (-9.8%).
- Within the Healthcare sector, a combination of the slight overweight and stock selection, driven by CSPC Pharmaceutical (-18.8%) and Sino Biopharmaceutical (-14.2%).

STOCK PERFORMANCE



(Source – Bloomberg, Guinness calculations. Performance in USD. Data from 31/12/23 to 31/12/24)

** sold ** bought*

Leaders

Below we discuss the best performing stocks that have been held for the entire year.

Geely (total return +77.7%) – after a few years of transition, Geely is making very good progress in its EV segment. Year-to-date (to the end of November), sales volume had increased by 32% to 2.2 million vehicles. Sales of pure EVs had risen by 86% to 0.58 million vehicles (26% of the total) while if also including hybrid cars, EVs accounted for 41% of total volume. The company is now targeting sales of 2.7 million vehicles in 2025 which represents 25% growth.

TSMC (total return +71.8%) - as the world's largest and most advanced foundry, TSMC is benefiting from the surge in demand for AI related chips. Large tech firms, mostly concentrated in the US, are rapidly increasing their investments into generative AI. There are only a few foundries worldwide with the knowhow and capacity to meet these orders, and TSMC is the best of this group.

China Merchants Bank (total return +57.2%) - value stocks outperformed and the Chinese banks have been notable outperformers, driven by a valuation re-rating. In our view CMB is the best run bank in China, with a cash return on equity well above its peers over the past decade. Supported by a dividend yield of ~5.3% and a dividend which has increased every year over the past decade, the stock outperformed.

Laggards

CSPC Pharmaceutical (total return -30.5%) – for the past few years, the business has been in the process of transitioning away from generic drugs and towards self-developed innovative drugs. Generic drugs face significant pricing pressure in China as the government attempts to manage health care costs. Meanwhile to incentivise domestic development of more advanced drugs, there is far less pricing pressure for innovative drugs. CSPC is developing its pipeline but this will take a few years to deliver and in the meantime, the generic portfolio is facing broad based weakness. A combination of price cuts and tighter budgets for hospitals has led to a weak set of results over the past few quarters. In the stock's defence, we estimate that the market price is currently assigning no value at all to CSPC's pipeline which seems extreme. Any positive news may lead to a sharp bounce in the stock price.

Baidu (total return –29.2%) – the company operates China's most popular search engine. It makes the majority of its money through its ad business and given the weak macro environment, revenue here is flat to slightly down. For its generative AI business, management is building a new revenue model where instead of using ads, Baidu earns money through customers directly purchasing products. This new model will take time to build and in the meantime, when customers use AI search, Baidu's take is likely to be minimal.

Xinyi Solar (total return -26.6%) – Xinyi is the world's largest producer of solar glass which is used to make solar panels. Given the oversupply in the business, Xinyi is seeing low prices for its solar glass. The business made a loss in the second half of 2024, driven by low prices, impairments for suspended production facilities and provisions for inventory. This marks the company's first interim loss ever. We continue to hold the stock on the expectation of an improving supply demand dynamic over time. While we wait, we believe the balance sheet is strong enough to weather the current period of weakness - Xinyi's debt/equity ratio is 32%.

PORTFOLIO CHANGES

We sold China Medical System, Venustech Group and Wuxi Lead Intelligent Equipment. We bought Midea Group and Haitian International. This leaves the Fund at 30 positions. Under our portfolio construction methodology whereby we fix the portfolio at a certain number of positions, we will keep this number at 30 henceforth, down from 31.

Sells

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. The company expects it will take until 2025 for revenue to beat 2022's amount, and until 2026 for net profits to do the same.

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 filed for bankruptcy in the US. Our concern was that some of Lead Intelligent's customers, whether well known or not, may not be able to pay Lead Intelligent. Given the high receivable days, there was a non-trivial chance that the business has to write off some of its receivables, leading to a hit to earnings.

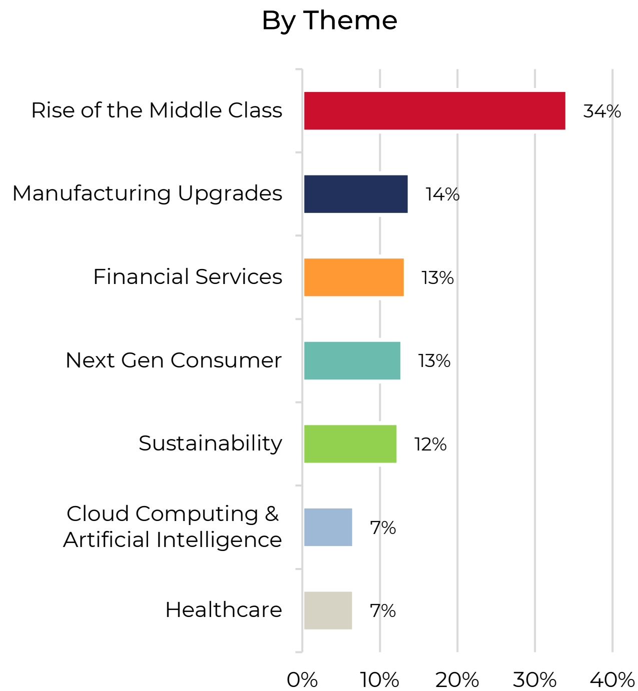
Buys

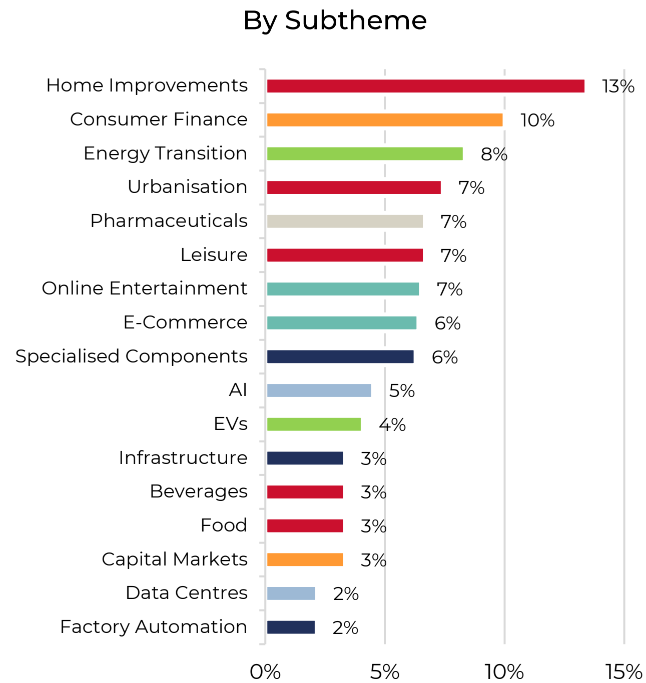
Midea is one of the world's largest household appliances companies, selling items such as fridges, freezers, dishwashers. It is also one of the world's largest air conditioner manufacturers. The company has a long track record of growing its asset base at a high cash return on capital. We expect revenues and profits to continue to grow, which is attractive in the current economic environment in China. We also like Midea because it owns Kuka which it bought from a German company in 2016. As China's working population shrinks and wages rise, greater automation is likely to be a trend and so owning one of the world's most advanced robotics companies makes Midea very attractive.

Haitian International is the world's largest manufacturer of plastic injection moulding machines. It is likely to benefit from government stimulus for its customers to upgrade older equipment. Additionally, Haitian gives indirect exposure to the trade-in of consumer goods, where consumers are given subsidies to trade in their older household appliances for newer products. This should lead to greater capex for some of Haitian's downstream customers, leading to greater demand for their machines. Management also say reshoring is creating opportunities for the business, as if new plants are being created in, for example, South East Asia, this should also boost demand for plastic injection moulding machines. Haitian trades at a very favourable risk reward ratio for a consistently high return on capital business.

PORTFOLIO POSITIONING

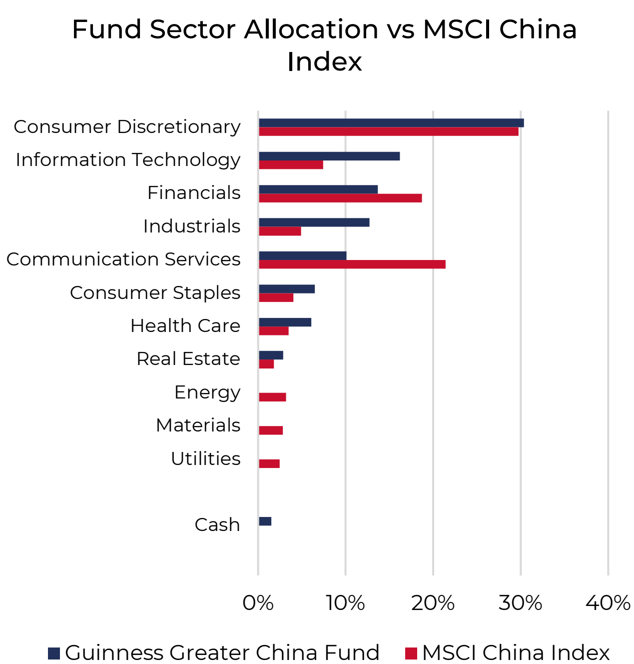
By theme, the Fund's largest exposures are to the Rise of the Middle Class, followed by Manufacturing Upgrades and Financial Services. Important subthemes include Home Improvements, Consumer Finance and Energy Transition.

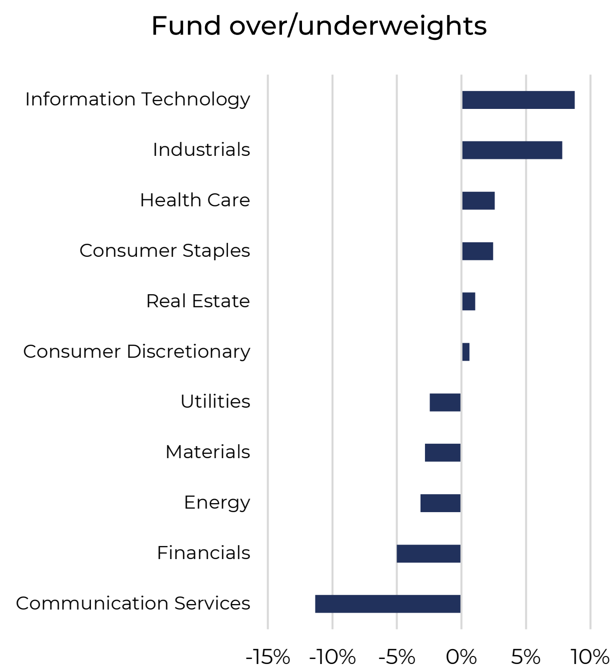




(Data as of 31/12/24, source: Guinness Global Investors calculations. Data assumes portfolio is equally weighted)

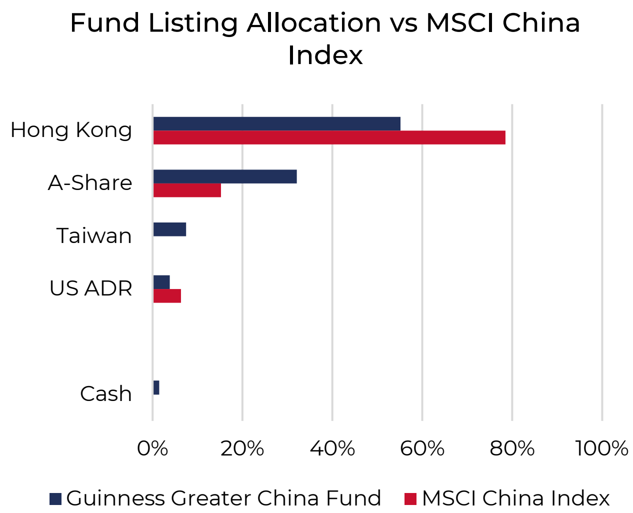
On a sector basis, the Fund's largest exposures are to the Consumer Discretionary and Information Technology sectors. Relative to the MSCI China Index, the Fund is overweight in the Information Technology and Industrials sectors. The Fund is underweight in the Communication Services sector.

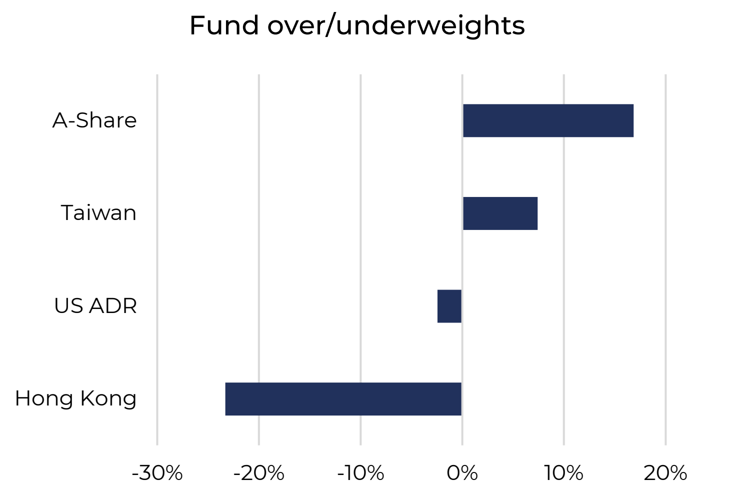




(Data as of 31/12/24, source: Guinness Global Investors calculations, Bloomberg)

On a listing basis, the Fund has 55% exposure to stocks listed in Hong Kong, 32% exposure to the A share market and a small 7% allocation to Taiwan. Relative to the MSCI China Index, this makes the Fund 17% overweight to the A share market and 23% underweight to stocks listed in Hong Kong.

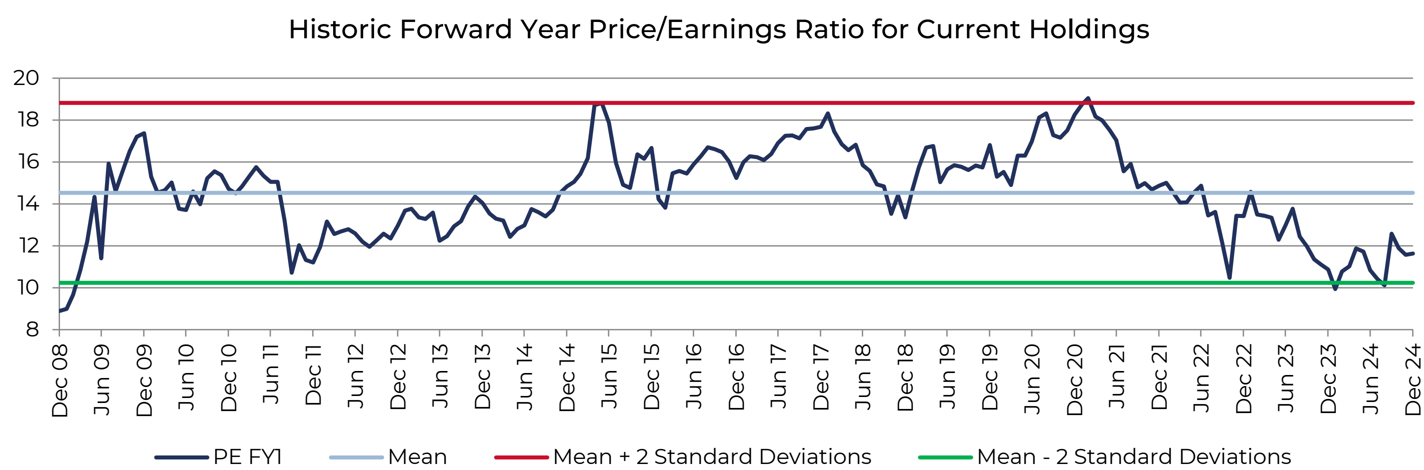




(Data as of 31/12/24, source: Guinness Global Investors calculations, Bloomberg)

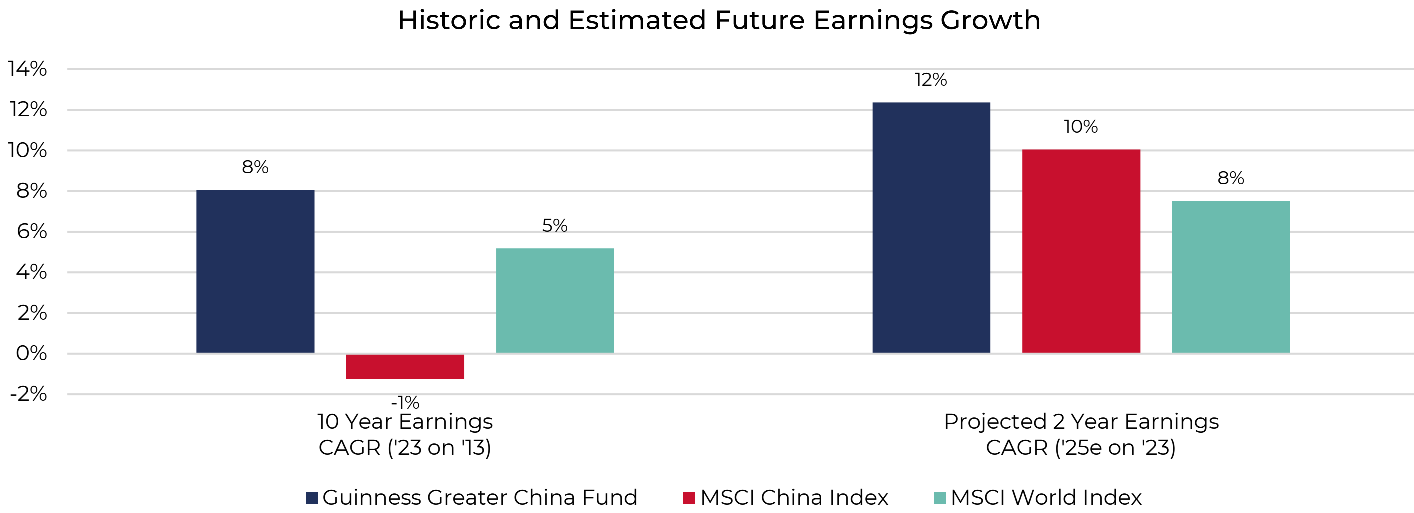
THE CASE FOR CHINA TODAY

From an investment perspective, we remind readers that returns can be broken down into three components: changes in valuation multiples, earnings growth and dividends. Below we break down each component to argue why investors should be allocating to China and specifically, the Guinness Greater China Fund.



Data from 31/12/08 to 31/12/24, source Guinness Global Investors calculations, Bloomberg. Fund series assumes $1m equally weighted into current holdings. Data for Guinness Greater China is a simulation based on actual historical data for the Fund's current holdings. The Fund was launched on 15.12.2015

The chart above shows the historic forward year price/earnings ratio, in aggregate, for the current holdings in the Fund. The Fund's holdings, which trade at a forward price/earnings ratio of 11.7x, which is well below their 15-year average. This is despite the fact the Fund has minimal exposure to the areas that investors are most cautious on China - real estate and the banks. Our holdings' valuations are being dragged down by the "China" discount, despite their strong track record of earnings growth across various economic environments. We argue that as more stimulus is announced and China gradually completes its transition away from real estate and towards the new pillar industries, the market is likely to see a valuation rerating.



Source: Bloomberg, MSCI, Guinness calculations. Data as of 31/12/2024. Fund series assumes $1m equally weighted into current holdings. Data for Guinness Greater China is a simulation based on actual historical data for the Fund's current holdings. The Fund was launched on 15.12.2015

In the long-term, we believe it is earnings growth which is likely to deliver returns for shareholders. Over the past decade, our holdings in aggregate have grown earnings by 8% a year. This compares favourably to the MSCI China Index, where earnings have actually contracted by 1% a year over the past decade. Based on consensus analyst estimates, the Fund's holdings in aggregate are expected to grow earnings by 12% a year over the next two years, which compares favourably to the 8% projected growth for the MSCI World Index.

Though the Fund does not have a distribution share class, the expected 2024 dividend yield of our companies is 3.0%. So in sum, we argue that a combination of a potential valuation re-rating, long term earnings growth and an attractive dividend yield make the Fund compelling for investors.

OUTLOOK

The signals from the government indicate that more support for the economy is forthcoming. In early December the Politburo further strengthened its wording on economic policy, as "more proactive" fiscal policy and "moderately loose" monetary policy was called for. These phrases are important as "more proactive" fiscal policy was last mentioned soon after the covid outbreak started, and "moderately loose" monetary policy was last used after the financial crisis.

The Minister of Finance has said China will expand the number of consumer goods that are eligible for the trade in subsidy, as well as the total value of subsidies provided. Already in January, the scope of the trade in program was expanded to include dishwashers, rice cookers, smartphones, tablets and smart watches. Funding for the trade-in program was increased from CNY 30bn ($4bn) in 2024 to CNY 81bn ($11bn) in 2025.

A Reuters report says China plans to issue CNY 3 trillion ($411 bn) in special government bonds, far higher than the CNY 1 trn ($138bn) issued in 2024. The report argues ~CNY 1.3 trillion is to be used to expand the consumer trade in programs (from the current level of CNY 150bn) and to support unspecified construction projects. More than CNY 1 trillion is to be spent on supporting new pillar industries, leaving ~CNY 700 billion to recapitalise the large SOE banks. The headline budget deficit is also reportedly to be increased from 3% of GDP in 2024 to 4% of GDP in 2025. Bloomberg estimate that taking into account both plans, the aggregate fiscal stimulus would be worth 2.6% of China's GDP, which we view as substantial.

Of course, the new Trump administration coming into power in January is another factor to watch and we believe it is likely the Chinese government is waiting to see how tariffs play out before they move decisively on policy. China now has a deeper set of tools it can use to retaliate, compared to Trump's first term.

From China's perspective, imposing tariffs across the board on imports from the US is not viewed as highly effective. Instead, restricting exports in goods where China dominates the supply chain in critical materials is considered more useful. For example, in December exports of gallium, germanium and antimony to the US were restricted, on the basis of their potential for use in military and civilian applications. This "dual use" argument mirrors the restrictions the US has imposed on Chinese companies, where we have just seen Tencent and CATL have been designated by the Pentagon as companies with links to the Chinese military. There are also other ways the Chinese can apply pressure – for example, in December China started an anti-trust probe on Nvidia.

Portfolio Managers

Sharukh Malik
Edmund Harriss

GUINNESS GREATER CHINA FUND - FUND FACTS

Fund size	$7.9m
Fund launch	15.12.2015
OCF	0.89%
Benchmark	MSCI Golden Dragon TR

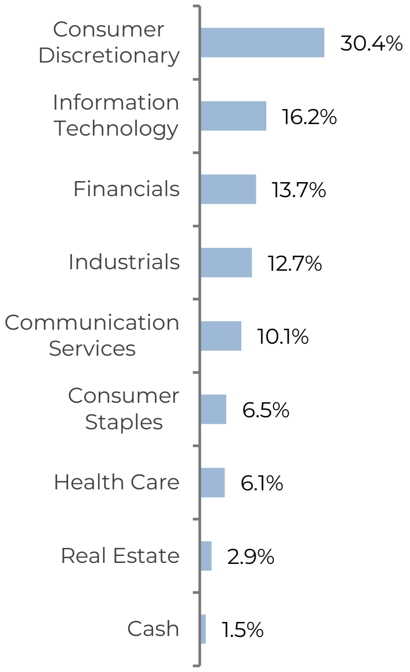
GUINNESS GREATER CHINA FUND - PORTFOLIO

Top 10 holdings

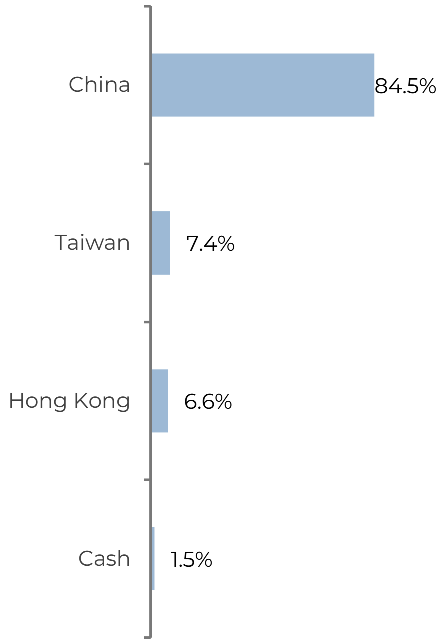
Tencent Holdings	4.1%
Elite Material	4.1%
Midea Group Co Ltd	3.8%
China Merchants Bank	3.8%
TravelSky Technology	3.6%
Geely Automobile Holdings	3.6%
JD.com	3.5%
Shenzhen Inovance Technology	3.5%
Inner Mongolia Yili Industrial	3.4%
Haier Smart Home	3.4%

Top 10 holdings	36.7%
Number of holdings	31

Sector



Country



Past performance does not predict future returns.

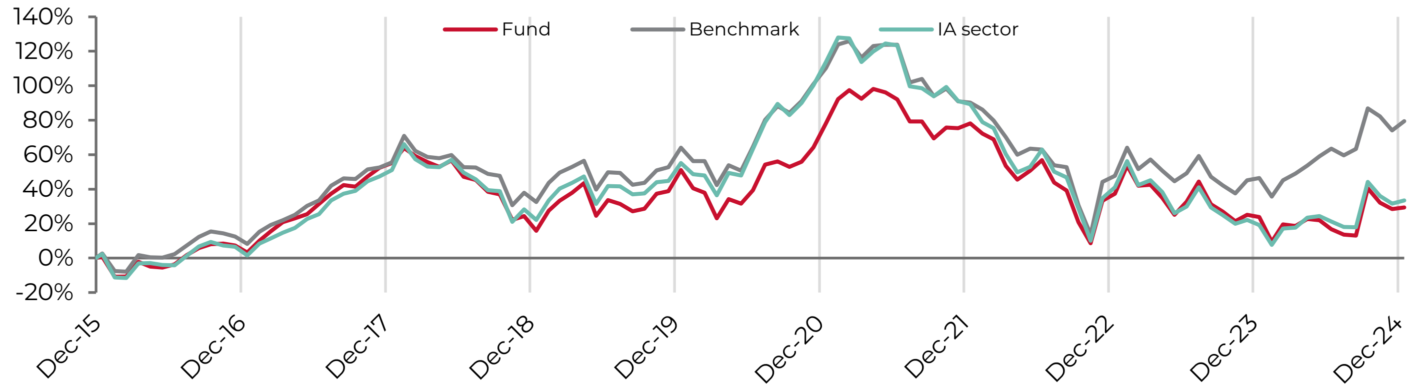
GUINNESS GREATER CHINA FUND - CUMULATIVE PERFORMANCE

(GBP)	1 Month	YTD	1 yr	3 yr	5 yr	10 yr
Fund	+2.2%	+6.4%	+6.4%	-21.5%	-9.5%	-
MSCI Golden Dragon TR	+4.6%	+24.7%	+24.7%	+2.0%	+15.7%	-
IA China/Greater China TR	+2.9%	+13.8%	+13.8%	-23.8%	-9.0%	-
(USD)	**1 Month**	**YTD**	**1 yr**	**3 yr**	**5 yr**	**10 yr**
Fund	+0.7%	+4.5%	+4.5%	-27.4%	-14.4%	-
MSCI Golden Dragon TR	+3.0%	+22.5%	+22.5%	-5.7%	+9.4%	-
IA China/Greater China TR	+1.4%	+11.8%	+11.8%	-29.5%	-14.0%	-
(EUR)	**1 Month**	**YTD**	**1 yr**	**3 yr**	**5 yr**	**10 yr**
Fund	+2.8%	+11.5%	+11.5%	-20.3%	-7.2%	-
MSCI Golden Dragon TR	+5.1%	+30.7%	+30.7%	+3.5%	+18.6%	-
IA China/Greater China TR	+3.4%	+19.2%	+19.2%	-22.6%	-6.8%	-

GUINNESS GREATER CHINA FUND - ANNUAL PERFORMANCE

(GBP)	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Fund	+6.4%	-15.0%	-13.3%	+1.0%	+14.2%	+25.3%	-20.7%	+37.6%	+22.1%	-
MSCI Golden Dragon TR	+24.7%	-6.5%	-12.6%	-8.6%	+24.2%	+19.0%	-9.5%	+31.3%	+25.7%	-
IA China/Greater China TR	+13.8%	-20.2%	-16.0%	-10.7%	+33.6%	+22.2%	-14.2%	+35.9%	+18.5%	-
(USD)	**2024**	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Fund	+4.5%	-9.9%	-23.0%	+0.1%	+17.9%	+30.4%	-25.3%	+50.4%	+2.3%	-
MSCI Golden Dragon TR	+22.5%	-0.9%	-22.3%	-9.5%	+28.2%	+23.8%	-14.8%	+43.8%	+5.4%	-
IA China/Greater China TR	+11.8%	-15.4%	-25.4%	-11.5%	+37.8%	+27.1%	-19.2%	+48.7%	-0.7%	-
(EUR)	**2024**	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Fund	+11.5%	-12.9%	-17.9%	+7.7%	+8.1%	+32.8%	-21.5%	+32.3%	+5.5%	-
MSCI Golden Dragon TR	+30.7%	-4.3%	-17.3%	-2.6%	+17.6%	+26.1%	-10.5%	+26.3%	+8.6%	-
IA China/Greater China TR	+19.2%	-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 31.12.24. 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 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.