

# Guinness Asian Equity Income Fund

INVESTMENT COMMENTARY – November 2017

**Launch date** 19.12.13

**Team** Edmund Harriss (manager)  
Mark Hammonds (manager)  
Sharukh Malik (analyst)

## Aim

The Guinness Asian Equity Income Fund is designed to provide investors with exposure to high quality dividend-paying companies in the Asia Pacific region. The Fund aims to provide long-term capital appreciation and a source of income that has the potential to grow over time.

	2014		2015		2016	
	USD	GBP	USD	GBP	USD	GBP
<b>Fund</b>	10.7	17.6	-4.4	1.2	7.5	28.2
<b>Index</b>	1.8	8.1	-9.4	-4.1	7.8	28.6
<b>Sector</b>	3.1	9.5	-8.6	-3.4	5.3	25.7

	YTD		1 year		From launch	
	USD	GBP	USD	GBP	USD	GBP
<b>Fund</b>	31.4	22.2	27.3	16.3	52.1	87.2
<b>Index</b>	32.3	23.1	28.5	18.2	34.5	65.8
<b>Sector</b>	32.0	22.8	26.5	16.3	33.9	65.0

## Annualised % total return from launch

	USD		GBP	
	<b>Fund</b>	11.5%		17.6%
<b>Index</b>		8.0%		14.0%
<b>Sector</b>		7.8%		13.8%

## Risk analysis (annualised, weekly, from launch)

	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
<b>Alpha</b>	0	0.0	0.4	1.6	4.8	5.5
<b>Beta</b>	1	1.0	0.9	0.9	0.8	0.9
<b>Info ratio</b>	0	0.0	-0.1	-0.1	0.6	0.6
<b>Max drwn</b>	-28.5	-26.2	-26.7	-24.5	-24.3	-20.6
<b>Tracking err</b>	0	0.0	3.5	3.8	5.6	5.7
<b>Volatility</b>	14.3	15.3	13.0	13.6	12.3	14.1
<b>Sharpe ratio</b>	0.3	0.7	0.3	0.8	0.6	1.0

Past performance should not be taken as an indicator of future performance. The value of this investment and any income arising from it can fall as well as rise as a result of market and currency fluctuations.

Source: Financial Express, bid to bid, gross total return.

## Fund & Market

The Fund performed well in October and was broadly in line with the MSCI AC Pacific ex Japan Index, which rose 4.9%/5.2% in GBP/EUR terms. Asian markets outperformed the US, UK, Europe and non-Asian Emerging markets, as measured by their respective MSCI indices. This makes Asia comfortably the best-performing region this year and yet, as discussed below, valuations are still attractive.

Technology, Healthcare and Consumer Staples were the outperformers over the month, while Telecom continued its long-term weakness, followed by Real Estate and Consumer Discretionary. On a country basis, South Korea, Taiwan, Singapore and China were outperformers, as measured by their respective MSCI country indices.

Technology stocks, which had been weak in September after the iPhone launch, recovered in October with more positive noises coming from Apple about likely demand for the iPhone X. This might be considered mere 'puff' from the company were it not also for stories in the Taiwanese press that Apple has asked component suppliers to double their shipment volumes for the rest of the year.

The valuation of the portfolio is still at a discount to the market on a Price/Earnings basis, trading on 13.1x 2017 and 12.0x 2018 estimated earnings, compared to the MSCI AC Pacific ex Japan Index which is trading on 14.5x and 12.6x respectively.

Asian markets, as measured by MSCI AC Pacific ex Japan, are still at a 26% discount to MSCI World on a reported earnings basis, down from 30% at the start of year (compared to the long run average since Jan 1995 of 23%). This is, however, not much of a reduction in the discount given the level of their outperformance this year. The reason is that reported profits in Asia have been growing faster than in developed markets.

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## Events in October

- China's Communist Party had its 19th National Congress, at the end of which the new leadership line-up was revealed. President Xi Jinping and his deputy Li Keqiang remain in place, as expected, while the five other members of the Standing Committee retired and were replaced. Importantly, all of these need to retire in five years' time and no candidates to succeed President Xi in 2022 were brought forward. We must conclude it is probable Xi will stay on beyond his 'normal' 10-year term. This is not necessarily a bad thing and investors should most likely welcome it. There are some tough reform decisions ahead with possibly powerful opposition from vested interests. Political strength will be needed if they are to be carried through, and this President Xi undoubtedly possesses.
- Japan's Prime Minister Abe secured a two-thirds majority in the lower house of parliament in the snap election.
- India announced a significant recapitalisation plan for its state-owned banks (\$32.4bn/1.3% of GDP) over the next two years in response to the bad debt issues facing the sector.
- South Korea is mending relations with China after a year-long spat over the country's deployment of THAAD, an anti-missile missile system, to counter the threat from North Korea. Trade and business relations have been significantly affected over the past 12 months. The Korean Won was the strongest currency in the region in October, up 2.4% against the dollar.
- US President Trump prepared to embark on a twelve-day tour of Asia in November during which he will meet China's President Xi.

## Outlook

- We expect to see interest rates in the US and UK rise only moderately in the coming twelve months.
- The capital expenditure cycle is showing signs of picking up, which is supportive for Asia.
- China's economic growth looks likely to come in ahead of market forecasts for this year, but in the months ahead we expect intensifying efforts to tackle leverage in the financial system, address debt in the corporate sector, and take the heat out of the real estate market. All will have a depressing effect on economic growth.
- We remain positive because we are focused on companies that do not require policy-driven growth to turn a profit and the portfolio is trading at a discount to Asian markets, as measured by the MSCI AC Pacific ex Japan Index.

## Stock news

It has been a good period for company results over the past month and into November. Twenty-one companies in the portfolio reported quarterly or half-yearly results. Six companies missed their estimates, but only one, Elite Material, has seen an adverse market reaction. DBS Group, Singapore's largest bank, recorded the widest miss, but this was the result management's decision to recognize all problem loans in the oil and gas segment of the loan book and set aside additional provisions. The market welcomed the move, which was accompanied by pre-provision operating profit growth driven by a widening of the net interest margin and improved cost efficiency.

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## Guinness Asian Equity Income Fund

Elite Material has a 50% share in laminates for rigid printed circuit boards (PCB) used in smartphones. We have been looking for the success in smartphones to be replicated in the server/networking segment and the company is on track to do this with the 24% revenue growth observed in 2016 in this area, which now contributes over a quarter of all revenue. However, in the short term there are concerns about smartphone market share loss as the iPhone migrates to a different technology. We believe that this concern has been overplayed and while the recent quarter's results were below estimates, non-Apple smartphones were bigger contributors than expected. There is still plenty to go for in non-iPhone smartphones and servers as well as the possibility of recouping iPhone share, so we have been adding to the position.

We wrote about Asustek at the half-year stage as one of our weaker positions. The company is undergoing a re-organization of its operations as the PC business remains under pressure with weaker demand and intensified competition while the smartphone area has yet to reach adequate scale. We were therefore happy to see that its third quarter results came in ahead of the highest estimates. Gross margin was better than expected and the company has been helped on the PC side both by reduced price competition from HP and by stronger demand for motherboards and graphics cards. Asustek still has a way to go to resolve the challenges it faces but we are encouraged to see in these results the qualities that drew us to the company in the first place.

St Shine Optical is another stock we have written about as optimism around the company has ebbed and flowed over the past three years. The company is enjoying another upswing and the share price has now pushed through the high seen in 2014. Recent results came in 9% ahead of consensus estimates, reflecting the reacceleration in sales growth, which the company reports monthly. Expansion into the US market is the recent positive development driving St Shine's share price. A new online client was added in 2016 and now accounts for 85% of US sales. The belief is that sales in this channel could be more stable than those from Bausch & Lomb in China. Even more encouragingly, the gross profit margin for US sales has now increased to match that of Chinese sales. Margin expansion, increased production capacity as well as new sales areas are combining to make for a strong story.

**Edmund Harriss and Mark Hammonds** (portfolio managers)

**Sharukh Malik** (analyst)

### Data sources

Fund performance: *Financial Express, gross total return*

Index and stock data: *Bloomberg*

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## Guinness Asian Equity Income Fund

### PORTFOLIO

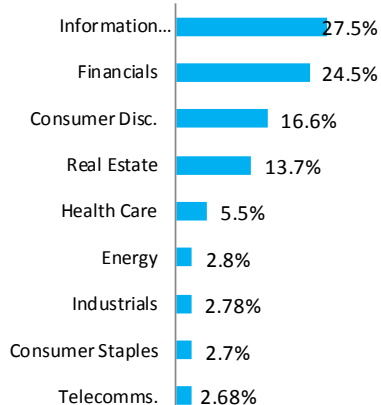
31/10/2017

#### Fund top 10 holdings

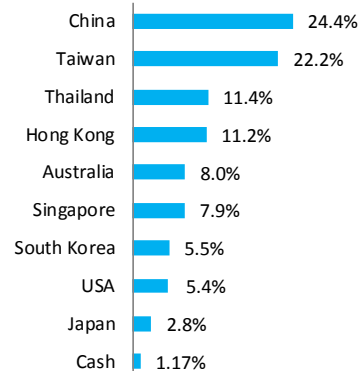
LPN Development	3.0%
Tisco Financial Foreign	2.9%
Largan Precision	2.9%
Li & Fung	2.9%
Luk Fook Holdings	2.9%
Relo Holdings	2.8%
St. Shine Optical Co	2.8%
Elite Material	2.8%
Catcher Technology	2.8%
PTT Public Company	2.8%

% of Fund in top 10                      28.7%  
Total number of stocks in Fund        36

#### Sector analysis



#### Geographic allocation



### PERFORMANCE

31/10/2017

#### Discrete years % total return

	Oct '13		Oct '14		Oct '15		Oct '16		Oct '17	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Fund (Y class, 0.99% OCF)	-	-	-	-	0.0	3.7	6.1	34.8	27.3	16.3
MSCI AC Pacific ex Japan Index	12.7	13.0	2.7	3.1	-10.4	-7.2	8.6	37.3	28.5	18.2
IA Asia Pacific ex Japan	11.5	11.8	4.2	4.6	-8.6	-5.3	6.7	34.9	26.5	16.3

#### Cumulative % total return

	1 month		Year-to-date		1 year		3 years		From launch	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Fund (Y class, 0.99% OCF)	3.8	4.8	31.4	22.2	27.3	16.3	35.1	62.7	52.1	87.2
MSCI AC Pacific ex Japan Index	3.8	4.9	32.3	23.1	28.5	18.2	25.1	50.7	34.5	65.8
IA Asia Pacific ex Japan	4.0	5.1	32.0	22.8	26.5	16.3	23.4	48.7	33.9	65.0

#### Annualised % total return from launch

	USD		GBP	
<b>Fund (Y class, 0.99% OCF)</b>	<b>11.45%</b>		<b>17.60%</b>	
MSCI AC Pacific ex Japan Index	7.97%		13.96%	
IA Asia Pacific ex Japan	7.83%		13.81%	

#### Risk analysis - Annualised, weekly, from launch on 19.12.2013

31/10/2017	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
Alpha	0.0	0.0	0.4	1.6	4.8	5.5
Beta	1.0	1.0	0.9	0.9	0.8	0.9
Information ratio	0.0	0.0	-0.1	-0.1	0.6	0.6
Maximum drawdown	-28.5	-26.2	-26.7	-24.5	-24.3	-20.6
R squared	1.0	1.0	0.9	1.0	0.9	0.9
Sharpe ratio	0.3	0.7	0.3	0.8	0.6	1.0
Tracking error	0.0	0.0	3.5	3.8	5.6	5.7
Volatility	14.3	15.3	13.0	13.6	12.3	14.1

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Source: Financial Express, bid to bid, gross total return. Fund launch date: 19.12.2013.

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## Important information

**Issued by Guinness Asset Management Limited**, authorised and regulated by the Financial Conduct Authority.

This report is primarily designed to inform you about equities and equity markets invested in by the Guinness Asian Equity Income Fund. It may provide information about the Fund's portfolio, including recent activity and performance. It contains facts relating to the equity markets and our own interpretation. Any investment decision should take account of the subjectivity of the comments contained in the report.

This document is provided for information only and all the information contained in it is believed to be reliable but may be inaccurate or incomplete; any opinions stated are honestly held at the time of writing, but are not guaranteed. The contents of the document should not therefore be relied upon. It should not be taken as a recommendation to make an investment in the Fund or to buy or sell individual securities, nor does it constitute an offer for sale.

### Risk

The Guinness Asian Equity Income 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 traded on Asian stock exchanges or that do at least half of their business in Asia; it is therefore susceptible to the performance of that region, and can be volatile. Details on the risk factors are included in the Fund's documentation, available on our website. Shareholders should note that all or part of the fees and expenses will be charged to the capital of the Fund. This will have the effect of lowering the capital value of your investment.

### Documentation

The documentation needed to make an investment, including the Prospectus, the Key Investor Information Document (KIID) and the Application Form, is available from the website [www.guinnessfunds.com](http://www.guinnessfunds.com), or free of charge from:-

- the Manager: Capita Financial Managers (Ireland) Limited, 2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland; or,
- the Promoter and Investment Manager: Guinness Asset Management Ltd, 14 Queen Anne's Gate, London SW1H 9AA.

### 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

The prospectus and KIID for Switzerland, the articles of association, and the annual and semi-annual reports can be obtained free of charge from the representative in Switzerland, Carnegie Fund Services S.A., 11, rue du Général-Dufour, 1204 Geneva, Switzerland, Tel. +41 22 705 11 77, [www.carnegie-fund-services.ch](http://www.carnegie-fund-services.ch). The paying agent is Banque Cantonale de Genève, 17 Quai de l'Île, 1204 Geneva, Switzerland.

### Singapore

The Fund is not authorised or recognised by the Monetary Authority of Singapore ("MAS") and shares are not allowed to be offered to the retail public. The Fund is registered with the MAS as a Restricted Foreign Scheme. Shares of the Fund may only be offered to institutional and accredited investors (as defined in the Securities and Futures Act (Cap.289)) ('SFA') and this material is limited to the investors in those categories

**Telephone calls** may be recorded and monitored.

**GUINNESS**

**ASSET MANAGEMENT LTD**

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