GUINNESS
Asian Equity Income Fund

GUINNESS
ASSET MANAGEMENT LTD

Why invest in Asia?

The Asia Pacific region includes both developed and emerging economies, and is home to 54% of the world's population (4.1 billion people). Its population is still younger than the developed world, and is getting richer. While western economies struggle to sustain economic growth, it is Asia's dynamism, expanding population and increasing wealth that will shape our economic future. If you believe successful investing is about recognising patterns of change to identify value and opportunities for wealth creation, then Asia is the place to look.

Asia is different from 'Emerging Markets'. Asia is diversified, whereas other emerging markets rely on production of resources or a larger neighbour (or regional trading block). The region has mobilised its resources for the production not only of raw materials but also the full range of manufactured goods (from cheap clothing to top-of-the-range electronics), and is plugged into the global manufacturing network. In 2010 57% of Asia's labour force (almost three in every ten workers in the world and nearly one billion people) was employed in industry or services, with the remainder working in agriculture. This was up from 510 million people or 40% of the labour force in 1990. It is this ongoing shift to "decent work" which generates wealth, fuels rising wages and provides a vibrant Asian market for goods and services. The rise of the Asian consumer, growing more numerous with more money to spend year by year, is the economic force driving change.

Having learned from its own 1998 experience, the region did well through the recent financial crisis. Governments, companies and the financial sector were not over-extended, while companies curbed their expansionary instincts and focused on cash flow generation and profit, leading to a step change improvement in companies return on investment.

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Sources: 1) International Labour Organisation (ILO), World Bank, Guinness Asset Management calculations. 2) ILO, Labour & Socials Trends in ASEAN 2010, Sustaining Recovery and Development through Decent Work.
3) World Bank, in constant 2005 USD, Guinness Asset Management calculations

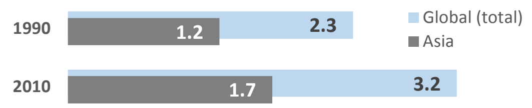
Why is Asia different?

Asia's economic growth is built on the mobilisation of its workforce and its evolution to manufacturing and industry.

Asia has mobilised its workforce

Asia's workforce numbered 1.7 billion in 2010 (out of a global total of 3.2 billion), up from 1.2 billion in 1990.

Global & Asian workforce [1]

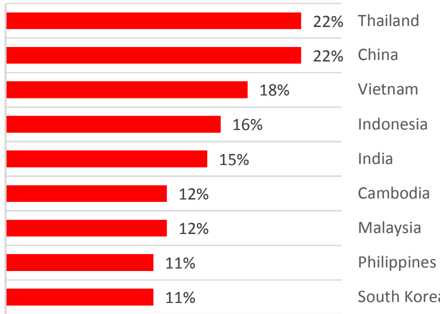


Its workers are employed in higher value jobs

By 2010 57% of Asians were employed in "decent work" (industry or services), up from 40% in 1990. [2] That's an annual growth rate of **3.3%**, more than double the 1.5% p.a. growth in Asia's total workforce.

Increase in industry & services workforce

Emerging Asia, 1990-2010 [1]

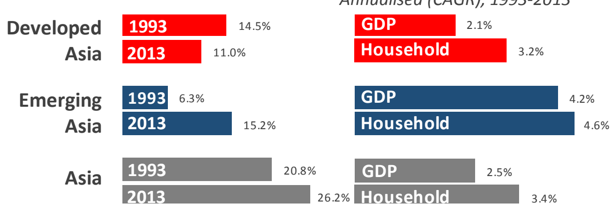


Its GDP & consumption have grown rapidly

Emerging Asian countries' share of global GDP grew from **6%** in 1993 to **15%** in 2013. Their average household expenditure grew 4.6% per annum.

Share of world GDP [3]

Growth in GDP per capita & household expenditure
Annualised (CAGR), 1993-2013



Asia's industrial and service-led growth and its domestic consumer markets are a significant difference from other resource-led emerging markets. Asia is the future for economic growth.

Fundamental change to government and society is most often propelled by economic forces. Asia's experience is no different. Increased individual wealth and economic participation has been followed by increased political engagement as people demand a voice in shaping their and their children's future. A demand for government accountability has meant more intensely contested elections – sometimes won by an outsider (as in Indonesia), but all won with a commitment to long-term economic planning and reform. Stock market regulation, accounting and disclosure have improved as financial systems respond to market needs.

There is a long-term investment opportunity in Asia. But *opportunity* and *risk* go hand-in-hand; the key for investors is finding proven companies and constructing the right portfolio to manage that trade-off.

"There is a long-term investment opportunity in Asia. But *opportunity* and *risk* go hand-in-hand; the key for investors is how to manage that trade-off."

Introducing Guinness Asian Equity Income Fund

The Fund is a concentrated, equally-weighted portfolio of 36 dividend-paying stocks that have achieved a persistently high return on invested capital, designed to deliver a combination of capital growth and dividend growth over time.

Stock selection

The Fund builds on the successful Guinness Global Equity Income methodology in selecting stocks from a universe of good quality companies. In Asia this means looking for companies that, excluding inflation, have generated a 'real' return on investment of at least 8% for each of the previous eight years.

Why 'real' return?	A 'real' return measure strips out variation in inflation rates across the region to give equivalence among returns on investment.
Why 8%?	By setting the threshold at 8% we can be confident the returns are above the average real cost of capital. These companies are truly creating value.
Why every year?	This excludes highly cyclical companies or those with high but declining or volatile earnings.
Why eight years?	Business cycles tend to last less than eight years. Eight consecutive years of success demonstrates a company's ability to make it through hard times as well as good.

We have found that good companies tend to stay good; 86% of companies that achieved a real return on investment of 8% or more in each of the previous 8 years will do so again the following year**.**

Balance sheet strength and critical mass

To ensure strength, stability and liquidity in the companies in our universe, we then apply debt and market capitalisation constraints. For inclusion, a company's ratio of debt to equity cannot exceed 100% (for banks, the ratio of equity to total assets must be at least 5%), and the stock must have a market capitalisation of at least US$500 million. There are currently 280 companies in Asia Pacific that meet these criteria.

The importance of dividends

Dividend investing requires us to establish whether a company is able (and willing) to pay and sustain a dividend over time. We focus on quality companies as the primary criteria for universe selection: companies that can generate persistently high returns can grow their business, increase their cash flows and sustain and grow their dividend. These businesses have demonstrated management skill, competitive advantage and/or an ability to allocate capital efficiently to generate these returns year after year. Companies' use of capital is important; we want to see a sustainable dividend stream, we do not want them to pay out all earnings (as would a high dividend stock) at the expense of growing the business.

Constructing the portfolio

The portfolio is equally-weighted across 36 positions. This discipline means we invest in each position with high conviction. We do this because:

1. **We do not know when value will be realised.**

We cannot know with certainty how much value there is in a stock, just a range of probable outcomes. Variable weightings requires an overlaying of probable values with a probability set of timings which we think detracts from the process.

2. **It sharpens the purchase and sale discipline.**

A purchase of a new position must be accompanied by a sale of an existing position; a one in-one out approach forces us to maintain high conviction in our decision-making and in our portfolio.

Most investors are aware (and behavioural finance studies agree) that in the real world, 'rational economic man' does not exist and stock markets are not efficient. Loss aversion is one of the key behavioural biases that portfolio managers must confront. The discipline of equal weighting counteracts it. Sensible periodic rebalancing forces us to go against market movement and (assuming our original rationale still stands) buy more of a company that has underperformed, and trim our holdings in companies that have outperformed. If our longer-term conviction proves correct, the Fund will benefit materially.

An equally-weighted portfolio is efficient and ensures clarity and discipline:

1. The number of holdings is fixed, and manager conviction is maintained; we can never grow a long tail of "legacy losers" in which we no longer have conviction.
2. A high active share relative to a benchmark is a given, and the stock-specific risk of an individual position is capped (at 2.75% in a 36 stock portfolio).

Our focus, therefore, is on stock selection, which is based on a regular weekly screen of the 280 companies in our universe by quality, value, earnings forecasts revisions and price momentum. Value at this stage becomes the dominant factor.

Value bias: due diligence and stock research

Our research and due diligence work for potential purchases focuses on the gap between the value of the stock we believe is warranted by the company's current operations, its prospects and the value placed on it by the market today. A position may be sold when the dividend contribution to the portfolio is insufficient, when the stock is (in our opinion) fully valued, if the company falls out of our universe, the balance sheet becomes stretched or, simply, if we find a better idea.

The makeup of the portfolio will of course change over time, but at the end of March 2015 approximately a third of the portfolio was exposed to developed markets, and two thirds to emerging markets. On a sector basis, around 60% was exposed to private consumption and 40% to other sectors such as banking, energy and industry. The design of the universe of stocks, and the method of portfolio construction, means the Fund differs significantly from the benchmark, and has a high active share. Nevertheless, despite the Fund's concentrated portfolio, volatility has been lower than that of the broad market, and it has tended to perform better during periods of market weakness. We attribute these defensive qualities to the operational strength of the companies held but also to their growing dividend streams.

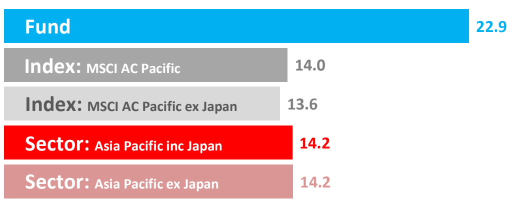
The Fund is designed to give investors exposure to one of the world's fastest growing regions, which will have a significant influence over our economic future. However, with change and opportunity comes risk. We address this by investing in companies with winning track records, that generate sufficient cash to reinvest in their business and then deliver sufficient returns to make that reinvestment worthwhile, and that are committed to paying growing dividends to shareholders.

This strategy and this Fund should be a core holding in an international and Asian equity allocation.

How has the Fund performed?

*2015 to 31.05.15

Annualised returns from launch



Discrete years

	May 11	May 12	May 13	May 14	May 15
Fund	-	-	-	-	31.2

Data in GBP, total return, to 31.05.2015, X share class. Fund launch: 19.12.2013. Source: Financial Express.

Cumulative returns	2015*	2014	Launch
Guinness Asian Equity Income	14.1	17.6	34.7
IA Asia Pacific inc Japan	13.6	5.2	21.2
IA Asia Pacific ex Japan	9.6	9.5	21.2
MSCI AC Pacific	13.6	5.3	20.8
MSCI AC Pacific ex Japan	10.4	7.8	20.2

Risk analysis *Annualised, weekly, from launch*	Sharpe	Tracking error	Volatility
Guinness Asian Equity Income	1.7	5.6	11.3
IA Asia Pacific ex Japan sector	1.0	3.1	10.8
MSCI AC Pacific ex Japan Index	0.9	0.0	11.6

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

Guinness Asian Equity Income Fund

The Fund is designed to provide investors with exposure to high quality dividend-paying companies in the Asia Pacific region. The Fund is managed for income and capital growth and invests in:

- **profitable companies…**
- **that have generated persistently high return on capital over the last eight years…**
- **and that are well placed to pay a sustainable dividend into the future.**

Portfolio

- Concentrated equally-weighted portfolio of 36 stocks, which reduces stock-specific risk and instils a strong sell discipline
- Low turnover
- Minimum $500m market cap
- No benchmark-led limits on sector & regional weightings

Benchmark	MSCI AC Pacific ex Japan Index
Asset class	Equity (long-only)
Geographic focus	Asia Pacific ex Japan
IA sector	Asia Pacific ex Japan
Fund launch date	19.12.2013
Dividend payments	Half yearly: July (interim) & January (final)
Managers	Edmund Harriss Mark Hammonds (analyst)

GBP share classes

Bookbuild (first £30m)	**0.25% AMC (0.74% OCF)**
Platform (no rebate)	0.75% AMC (1.24% OCF)
Rebate	1.50% AMC (1.99% OCF)

Accumulating and distributing classes and share classes in other currencies are available.

The Guinness Asian Equity Income Fund is an equity fund. Investors should be willing and able to assume the risks of equity investing. The Fund invests only in stocks of companies that are traded on Asian 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.

Fund managers

Edmund Harriss has managed Asian Funds since 1994 both from London and Hong Kong. He worked for ten years from 1993 for Guinness Flight, which merged with Investec in 1998. He joined the Far East Investment Desk in 1994 as part of the team managing the China & Hong Kong Fund (now the Guinness Atkinson China & Hong Kong Fund, for US investors). In 1998 he moved to Hong Kong and became the Fund's lead manager. Edmund now manages Asia funds and China & Hong Kong funds in a Dublin OEIC for Guinness Asset Management and SEC-registered funds (for US investors) for Guinness Atkinson Asset Management. Edmund graduated from Christ Church, Oxford, with a Master's degree in Management Studies and has a Bachelor's degree in History from the University of York. He is an Associate of the Society of Investment Professionals.

Mark Hammonds joined Guinness Asset Management as an investment analyst in September 2012. Previously he qualified as a Chartered Accountant at Ernst & Young. Mark graduated from Corpus Christi College, Cambridge, in 2007 with a First Class degree in Management Studies.

Guinness Asset Management

Guinness Asset Management provides a range of long-only actively managed funds to individual and institutional investors. Founded in 2003, Guinness is independent and is wholly owned by its employees.

We believe in in-house research, intelligent screening for prioritisation of research and well-designed investment processes. We manage concentrated, high conviction portfolios, with low turnover and no benchmark constraints. At heart Guinness is a value investor.

Since our establishment we have developed a variety of specialisms in global growth and dividend funds, global sector funds and Asian regional and country funds.

The Guinness funds sit within an Irish-listed OEIC. They are managed alongside a range of mirror SEC-registered funds offered to US investors by our US sister company, Guinness Atkinson Asset Management Inc.

We also offer Enterprise Investment Schemes investing in UK renewable energy projects and AIM-listed companies.