GUINNESS

Asian Equity Income Fund

A high conviction equity fund managed Edmund Harriss in accordance with an intelligent investment process for high quality income portfolios.

Annual review

2014

GUINNESS
ASSET MANAGEMENT LTD

Launch date	**19.12.13**
Team	**Edmund Harriss** (manager) **Mark Hammonds** (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.

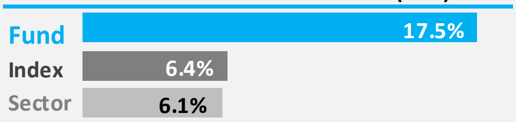
Performance 31.12.14

Fund	Guinness Asian Equity Income (X)
Index	MSCI AC Pacific Index
Sector	IA Asia Pacific inc Japan

	2012	2013	2014
Fund	-	-	17.6
Index	11.3	10.6	5.3
Sector	10.5	10.4	5.2

	1 year	2 years	3 years
Fund	17.6	-	-
Index	5.3	16.5	29.6
Sector	5.2	16.1	28.3

Annualised % total return from launch (GBP)



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0	0.5	12.7
Beta	1	0.9	0.7
Info ratio	0	0	1.7
Max drwdn	-8.5	-7.0	-5.1
Tracking err	0	2.3	6.3
Volatility	11.0	10.2	9.2
Sharpe ratio	0.2	0.3	1.5

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, total return in GBP.

Annual review

Summary

Asian equity markets had mixed performance in 2014. After a weak start to the year, markets rallied up to the beginning of September, whereupon they promptly reversed, giving up most of the year's gains. Among the markets in our investment universe, Indonesia, the Philippines and Thailand were the strongest performers in 2014, while South Korea, Malaysia and Japan were the weakest. Significant falls in the oil price and weak economic data from Europe led to increased equity market volatility in the latter part of the year. However, we believe Asia has excellent potential for economic growth, and offers attractive investment opportunities for long-term investors who are prepared to 'ride-out' short-term volatility.

In this update, we review the case for investing in Asia, the Fund's performance over the last year, and the positioning of the portfolio at the end of December.

1. Investing in Asia

One of the main reasons often cited for investing in the Asia Pacific region is the favourable outlook for economic growth. The following table shows consensus estimates for real GDP growth in selected countries:

Real GDP growth (% year-on-year)

	2014E	2015E
US	2.2	3.0
Euro	0.8	1.5
Japan	1.0	1.2
Australia	3.0	3.0
New Zealand	3.5	2.9
China	7.3	7.2
Hong Kong	2.5	3.5
Indonesia	5.2	5.6
Korea	3.6	3.8
Malaysia	5.7	5.2
Philippines	6.3	6.5
Singapore	3.3	3.7
Taiwan	3.6	3.6
Thailand	1.5	4.1

Source: JP Morgan

As the forecasts show, China, Indonesia, Malaysia and the Philippines are all expected to grow at more than 5% in 2015. While we do not rely on macroeconomic forecasts such as these (which often turn out to be inaccurate), they do provide an indication of the magnitude of expected growth; for developing countries in the region, a 5% growth rate is attractive on both an absolute and a relative basis when compared with US, Europe and Japan. Looking further ahead, we believe that many of the developing countries in the Asia Pacific region will maintain favourable medium and long-term economic growth, as they continue to develop.

Other emerging markets around the world also have favourable growth rates, so it is worth considering why we believe these countries are not as attractive. Many emerging market countries have built their economies around the production of commodities, and those economies can face difficulties when the price of those commodities falls. Two of the countries in the 'BRICs' acronym, Brazil and Russia, illustrate this danger; Russia in particular has faced difficulties from a falling crude price (now down over 50% from its 2014 high). Russia's problems have also been compounded by international sanctions following its annexation of Ukraine. As a result of these events, the Russian Rouble has fallen sharply in recent months.

Many countries in the Asia Pacific region, on the other hand, have been able to diversify their economies away from commodity production and related industries. For example, China and Taiwan have developed specialisms in technology manufacture that are unmatched (or at least strong versus the competition) elsewhere in the world. Rather than produce goods that can be supplied by a number of countries, e.g. commodities, the production of goods that have no straightforward substitute from other countries can strengthen an individual economy (assuming, of course, that those products remain in demand).

Economic growth rates are an important factor in investing over the long term, as they contribute to companies' revenue and earnings growth. However, they do not automatically translate into investment performance. Typically, investment performance is driven by investors anticipating strong growth, and bidding up the valuations of related companies in advance. We instead take a predominantly bottom-up approach to investing, and while we are mindful of macro factors that can affect an investment, we focus mainly on analysis of individual companies' fundamentals and valuations.

The table below shows the differences in valuations between the regions, aggregated at a country level:

	P/E ratio		Earnings growth (%)	
	2014E	**2015E**	**2014E**	**2015E**
Global	16.2	14.9	4.6	8.5
US	17.7	16.4	5.2	7.8
Europe	15.3	14.0	2.7	9.2
Asia Pacific	**14.1**	**13.1**	**10.8**	**7.4**
Japan	15.6	14.0	74.4	8.7
Australia	15.0	15.1	2.3	-0.5
China	10.4	9.4	7.6	9.9
Hong Kong	14.8	14.2	9.1	4.0
Indonesia	15.9	14.3	10.5	10.7
Korea	11.5	9.4	0.6	22.9
Malaysia	15.9	14.9	-1.0	6.1
Philippines	21.5	19.0	5.8	13.2
Singapore	14.3	13.9	9.3	2.4
Taiwan	13.8	12.8	26.1	7.9
Thailand	14.5	13.1	8.4	11.0

Source: I/B/E/S, MSCI, J.P. Morgan estimates.

While there is a general trend for forecast economic growth to translate into expected earnings growth that attracts a higher valuation, there are disparities in the data. China is the most notable: its economy is expected to grow at around 7-7.5% p.a. over the next two years (with earnings expected to grow by a similar magnitude), but its forecast 2015 P/E ratio is only 9.4. Although this inconsistency is partly due to the underlying spread of industries (some sectors are on much higher multiples), we believe that it is in part simply undervaluation: China represents an attractive opportunity for investment, and correspondingly the portfolio has significant exposure.

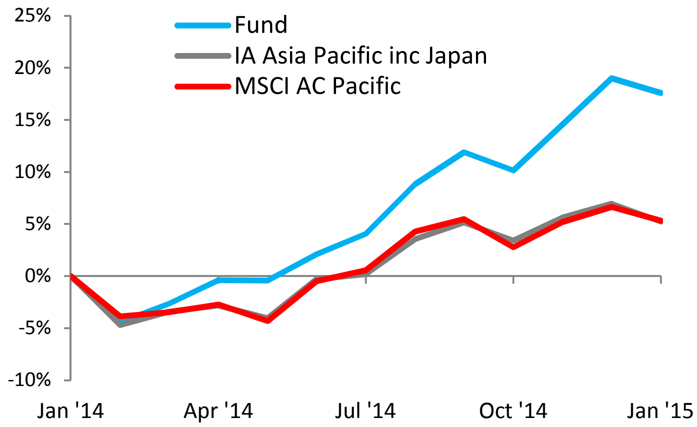
Dividends are an important part of our investment process. Reinvested dividends make a significant contribution to total return over the long term, and can provide an element of downside protection (provided dividend payments are sustainable). Management of Asian companies are increasingly recognising the attraction of dividends to investors; and as companies mature, they are becoming more willing to provide a regular payment. When considering whether to invest in a company, we consider not only the magnitude and sustainability of dividend payments, but also the potential to grow that dividend. We believe that Asian companies provide a good balance between paying out dividends at a decent level, and being able to achieve satisfactory dividend growth over the long term.

2. Performance

Total Returns (in GBP)	2014	Since launch
Fund	17.59	18.12
MSCI AC Pacific	5.31	6.33
S&P 500	20.02	21.18
IA Asia Pacific inc Japan sector	5.22	6.65

Source: Financial Express. Fund launched 19.12.13.

The Fund returned 17.6% (in GBP) in 2014, its first full year since launch in 2013. The benchmark index, MSCI AC Pacific, returned 5.3% over the same period, so the Fund outperformed by 12.3%. Much of this outperformance came from September onwards, as Asian equities fell.



Source: Financial Express, total return in GBP

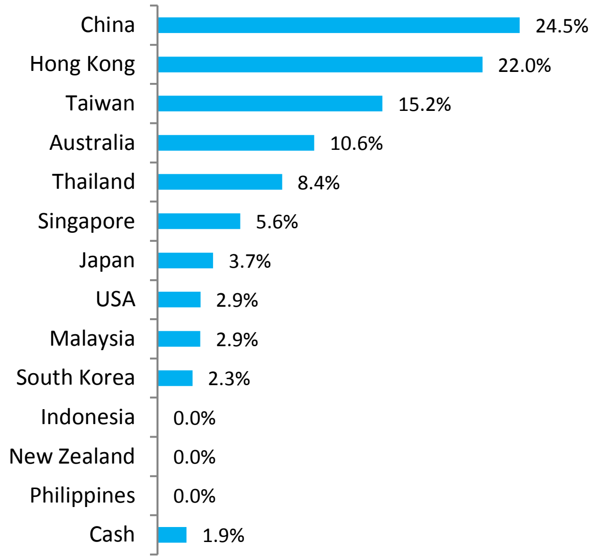
We believe that the Fund's exposure to defensive, dividend-paying companies provides some degree of downside protection, and we are pleased that this characteristic has been borne out by performance in recent months.

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise.

Among the countries in our investment universe, Indonesia, Philippines and Thailand were the strongest performers in 2014, returning 27.53%, 26.42% and 16.95% respectively. South Korea, Malaysia and Japan were the weakest markets, returning −12.39%, −10.63% and −3.37% respectively. (All MSCI country indices total returns, in USD terms (the Fund's base currency)).

3. The portfolio

The following table shows the Fund's country weightings at the end of December 2014:



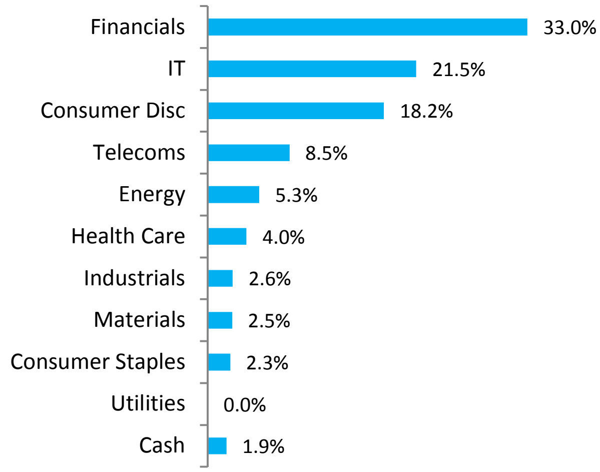
Source: Guinness Asset Management

Our largest country exposures were to China (24.5%), Hong Kong (22.0%), Taiwan (15.2%) and Australia (10.6%). We generally find that these markets offer a combination of:

1) sufficient number of companies for inclusion in our universe, and;
2) favourable fundamental and valuation characteristics.

In other countries, for example Indonesia and Philippines, we often find that the companies which meet our screening criteria have valuations that are not sufficiently attractive.

The table below shows the Fund's sector weightings:



Source: Guinness Asset Management

The Fund's largest sector exposures are to Financials (33.0%), Information Technology (21.5%) and Consumer Discretionary (18.2%). Again we find that these categories are well-represented in our investment universe, and provide attractive valuations. We note that some sectors – for example Materials, Energy and Utilities – have historically had low representation in our universe; Materials and Energy are highly cyclical industries, while Utility companies are often heavily regulated and achieve lower returns.

4. Outlook

The falls in the oil price towards the end of 2014 (and on into 2015) have dominated events in financial markets. Brent crude has fallen from $115 in June 2014 to around $45 at time of writing. Along with these price movements, European economic data has been weak, with deflation again concerning investors. Against this macro backdrop, equity markets have been volatile, and Asia Pacific markets have been no exception.

However, despite short-term market volatility, we think that the Asian Pacific region offers investors excellent long-term prospects. The region has, and will continue to benefit from, favourable demographic characteristics, and rising levels of personal wealth. Developing Asian economies are increasingly switching from being investment-driven to more consumption-led. We believe this trend will result in favourable economic growth and attractive investment returns.

We think that the Guinness Asian Equity Income Fund stands to benefit from economic growth in the region, while at the same time providing investors with a satisfactory source of income.

Edmund Harriss (fund manager)

Mark Hammonds (investment analyst)

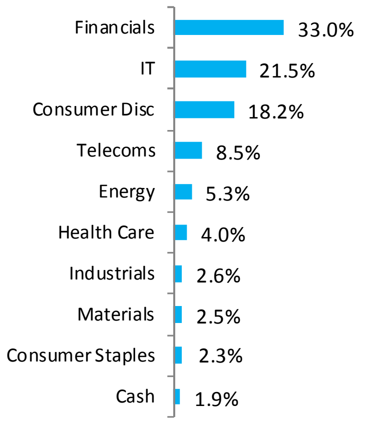
January 2015

PORTFOLIO (31.12.14)

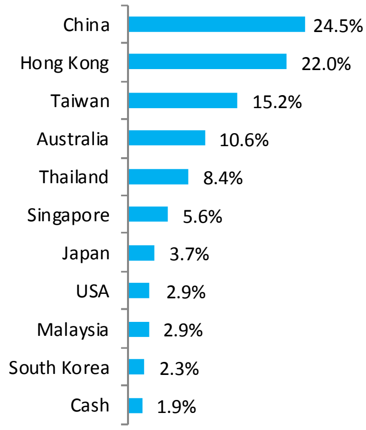
Fund top 10 holdings

Relo	3.7%
Novatek Microelectronics	3.4%
China Merchants Bank H	3.2%
Link (REIT)	3.2%
China Minsheng Banking H	3.2%
LPN Development	3.0%
China Mobile	3.0%
Luk Fook	2.9%
Qualcomm	2.9%
DiGi.COM	2.9%
% of Fund in top 10	31.5%
Total number of stocks in Fund	37

Sector analysis



Geographic allocation



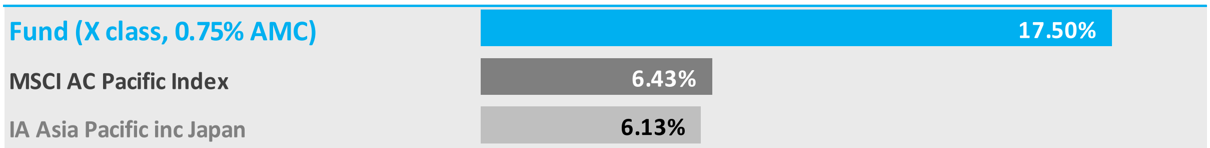
PERFORMANCE

Discrete years % total return (GBP)

12 months to month end:	Dec '10	Dec '11	Dec '12	Dec '13	Dec '14
Fund (X class, 0.75% AMC)	-	-	-	-	17.6
MSCI AC Pacific Index	20.5	-13.3	11.3	10.6	5.3
IA Asia Pacific inc Japan	22.7	-16.2	10.5	10.4	5.2

Cumulative % total return (GBP) 31/12/2014	1 month	Year-to-date	1 year	3 years	From launch
Fund (X class, 0.75% AMC)	-1.2	-	17.6	-	18.1
MSCI AC Pacific Index	-1.2	-	5.3	29.6	6.3
IA Asia Pacific inc Japan	-1.6	-	5.2	28.3	6.7

Annualised % total return from launch (GBP) 31/12/2014



Risk analysis - Annualised, weekly, from launch on 19.12.2013, in GBP

31/12/2014	Index	Sector	Fund
Alpha	0	0.51	12.66
Beta	1	0.91	0.69
Information ratio	0	0	1.69
Maximum drawdown	-8.50	-7.04	-5.13
R squared	1	0.96	0.68
Sharpe ratio	0	0.26	1.51
Tracking error	0	2.34	6.26
Volatility	11.02	10.24	9.19

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, total return. Fund launch date: 19.12.2013.

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, 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. The Fund has been approved by the Financial Conduct Authority for sale in the UK. 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. The paying agent is Banque Cantonale de Genève, 17 Quai de l'Ile, 1204 Geneva, Switzerland.

Telephone calls may be recorded and monitored.