Guinness Asian Equity Income Fund

INVESTMENT COMMENTARY - April 2015

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.

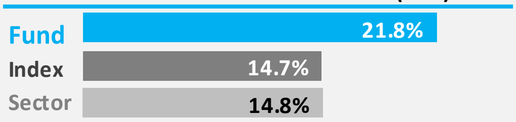
Performance (in GBP) 31/03/2015

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	28.6	-	-
Index	21.4	15.3	33.8
Sector	21.0	14.5	31.0

Annualised % total return from launch (GBP)



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0	0.8	9.8
Beta	1	0.9	0.7
Info ratio	0	0	0.9
Max drwdn	-8.5	-7.0	-5.1
Tracking err	0	2.5	6.5
Volatility	10.7	10.0	9.7
Sharpe ratio	1.1	1.1	1.8

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.

The case for Asian emerging markets

Where to invest

One of the questions we are often asked by investors is: why should I invest in emerging markets? While we invest in both developed and emerging markets, it is often the latter that interest people more, because of higher growth expectations, albeit with greater perceived risk. We believe that emerging markets in Asia currently offer more attractive opportunities for investment, and accordingly the portfolio is weighted 62% to emerging countries versus 35% to developed markets.

The natural follow-up question from investors is: why *Asian* emerging markets? Our contention is that Asian emerging markets offer a more diversified investment opportunity than emerging markets elsewhere. In this month's brief, we explore some of the reasons why we hold this view.

Boom and bust

The B(razil)R(ussia)I(ndia)C(hina) economies have been a popular investment concept in recent years, but the economies of two of the BRICs, Brazil and Russia, have been reliant on commodities, in particular oil, gas and iron ore. This dependency was to their advantage as prices rose, especially during the China investment boom, but as this has slowed, falling commodity prices have left their economies cruelly exposed. Their currencies have weakened and both are struggling with recession and high inflation. Both notably failed to broaden and deepen their wider industrial bases in the good times.

The contrast with Asia is significant.

There are countries in Asia Pacific that are also significant commodity producers: oil, gas, iron ore, copper, nickel, tin, rubber and crude palm oil are all produced in the region. Thailand and Malaysia, for example, do have greater reliance on oil and gas. Indeed, one of the companies in our portfolio, PTT, is engaged in the production and processing of natural gas in Thailand, and their major customers are electricity generators which generate 75% of the country's electricity from natural gas. However, rather than relying on revenues from commodities, whose prices they cannot control, Asia's key strength is its development as a global manufacturing hub that has become increasingly integrated over time.

The success of this process may be seen in the resilience of the region to the global financial crisis. We also see that the benefits of falling commodity prices have greatly outweighed the negative effects. Fuel costs have fallen to the benefit of end consumers, and the governments that subsidised them; corporate margins have risen; and inflation pressures dampened. The diversity and complexity of Asian manufacturing is increasingly becoming the region's growth driver, and the wealth creation associated with it underpins the rise of the Asian consumer sector.

"Knitting" for the West

China's manufacturing industry is a prime example of this trend. China has developed at an extraordinary pace over the past few decades. In its early stages much of this growth was driven by basic labour-intensive manufacturing as the country cashed in on its 'demographic dividend'. Textile manufacturing has long been a China speciality, but as the abundance of cheap labour has diminished so wages have begun to rise. This has had the benefit of increasing levels of disposable incomes, but it has created a challenge for companies in the textile sector whose costs have been pushed higher. The response has been emblematic for China Inc. Lower-end companies have moved out and relocated to Bangladesh, Cambodia, Laos and Vietnam. Those that stayed have moved into more sophisticated textile products and invested in greater automation and production efficiency.

There are two textiles companies in the portfolio, Pacific Textiles and Shenzhou International. They manufacture sophisticated mixed types of fabrics and customised textiles offering dyeing, printing and finishing services. The fabrics are used in a wide range of garments, including men's and women's clothing, sportswear, swimwear and underwear for clients including Uniqlo, Nike, GAP, Marks & Spencer and Victoria's Secret. The ability to produce higher quality materials in volume and efficiently for demanding clients has enabled Pacific Textile and Shenzhou to maintain margins well above the sector average, providing sufficient cash flows to sustain investment and dividend growth.

A boost to consumerism

Growth in manufacturing in Asia means that consumption – typically regarded as a more stable source of growth – now constitutes a greater share of the economy. Much of China's recent economic policy has been to manage the transition from investment-led growth to that driven by consumption. Reflecting its increasing importance, there is a greater weighting in the portfolio to consumer sectors: 60% versus 38% for other sectors.

China Lilang is exposed to increasing demand in China for consumer fashion. Lilang is a designer and retailer of men's clothing, sold from over 3,000 outlets across China. Lilang has two brands: LILANZ, a higher-end brand targeting more affluent customers, and L2, targeting men aged 20-35 years. Lilang designs its own clothes and has a mixture of Chinese and European design teams. The company's formula has been very popular, and it has maintained high returns on investment since 2006, while being able to expand. Shareholders have also benefited from the company's success – management has been able to pay out over 65% of earnings as dividends.

Taiwanese technology

Taiwan, too, has centred its economic development on production, gaining a particular expertise in consumer electronics – both components and finished goods. While technology is an industry susceptible to rapid change and short product life-cycles, some companies have achieved impressive track records. We are seeing some attractive investment opportunities in Taiwan, and it has a relatively high weighting in the portfolio of 16%.

Catcher Technology manufactures the high-quality casing used on the iPhone 6. While being an extremely significant source of demand in its own right, the iPhone 6 is also influencing the competition. The new Samsung S6 has been launched recently with a high-quality metal finish, replacing the plastic cases used on previous models. Metal cases, such as that used on the iPhone 6, are produced to exacting specifications using CNC (Computer Numerical Control) machines. Not only must producers be able to meet the high standards of end customers like Apple, they must also be able to maintain standards while producing in high volumes.

Taiwanese technology manufacturer Asustek Computer has developed from pure manufacturer to become a consumer brand (ASUS) in its own right. The company started in 1989 as a computer component manufacturer specialising in motherboards noted for their stability and reliability. Asustek has since gone on to become the world's number five maker of notebook PCs, and the company also manufactures tablets, PC components and peripherals under the ASUS brand. Asustek is producing attractively-designed products that can compete effectively with Western manufacturers. As a result, ASUS is becoming more widely recognised as a consumer brand outside of Asia, echoing a trend we see across the region.

Overlooked opportunities

The Asian region has matured substantially over the past twenty years. Economic growth has slowed from the breakneck pace of the 1990s and companies have learned to be more discerning in their investment decisions. The result of more disciplined capital allocation and management has been improved returns on investment and stronger cash flows. A dividend-paying culture has become more widely established, although Japan and South Korea have yet to embrace this fully.

Asia has undeniably developed as a global manufacturing hub, and the region's consumer sector is expanding at a rapid rate. We think that the diversification that these industries provide sets Asia apart from other emerging markets that are more dependent on commodities. We acknowledge that many of the companies in Asia are not yet household names, but this does not preclude them from being good investments. The companies in our universe have achieved persistently high returns on capital, with track records that rival their more well-known counterparts in developed markets. In fact, it is investors' lack of familiarity with some of these companies, in addition to fears about emerging markets in general, that may create the attractive investment opportunities we believe the region offers.

Mark Hammonds
Analyst, Guinness Asian Equity Income Fund

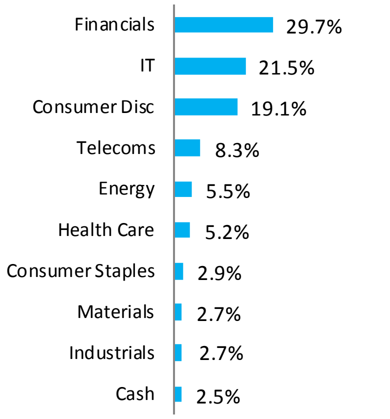
April 2015

PORTFOLIO (31/03/15)

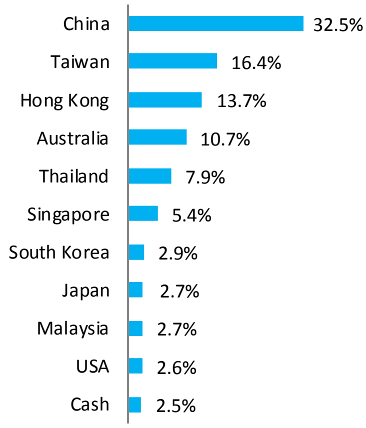
Fund top 10 holdings

Asustek Computer	3.1%
China Mobile	3.0%
Luk Fook Holdings	3.0%
KT&G Corporation	2.9%
Hon Hai Precision Industry	2.8%
Taiwan Semiconductor	2.8%
Link REIT	2.8%
CNOOC	2.8%
China Merchants Bank	2.8%
Capitamall Trust	2.7%
% of Fund in top 10	28.6%
Total number of stocks in Fund	36

Sector analysis



Geographic allocation



PERFORMANCE

Discrete years % total return (GBP)

12 months to month end:	Mar '11	Mar '12	Mar '13	Mar '14	Mar '15
Fund (X class, 0.75% AMC)	-	-	-	-	28.6
MSCI AC Pacific Index	5.3	-3.1	16.1	-5.0	21.4
IA Asia Pacific inc Japan	5.2	-3.7	14.4	-5.4	21.0

Cumulative % total return (GBP)

31/03/2015	1 month	Year-to-date	1 year	3 years	From launch
Fund (X class, 0.75% AMC)	5.4	8.9	28.6	-	28.6
MSCI AC Pacific Index	4.8	12.2	21.4	33.8	19.3
IA Asia Pacific inc Japan	4.9	11.8	21.0	31.0	19.2

Annualised % total return from launch (GBP) 31/03/2015

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

31/03/2015	Index	Sector	Fund
Alpha	0	0.77	9.76
Beta	1	0.91	0.72
Information ratio	0	0	0.86
Maximum drawdown	-8.50	-7.04	-5.13
R squared	1	0.95	0.64
Sharpe ratio	1	1.07	1.83
Tracking error	0	2.50	6.52
Volatility	10.70	10.02	9.69

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.

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