

Guinness Asian Equity Income Fund

INVESTMENT COMMENTARY – October 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)	30/09/2015		
Fund	Guinness Asian Equity Income (X)		
Index	MSCI AC Pacific ex Japan Index		
Sector	IA Asia Pacific ex Japan		
	2012	2013	2014
Fund	-	-	17.6
Index	16.7	2.0	7.8
Sector	15.9	1.9	9.5
	YTD	1 year	From launch
Fund	-3.4	3.2	14.1
Index	-12.0	-9.2	-4.2
Sector	-10.4	-7.9	-0.9
Annualised % total return from launch (GBP)			
Fund	7.7%		
Index	-2.4%		
Sector	-0.5%		
Risk analysis (annualised, weekly, from launch)			
	Index	Sector	Fund
Alpha	0	1.6	10.1
Beta	1	0.9	0.8
Info ratio	0	0.6	1.7
Max drwn	-25.6	-23.2	-19.9
Tracking err	0	3.3	6.1
Volatility	13.2	12.0	12.2
Sharpe ratio	0.0	0.0	0.4
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.			

Quarterly review

The third quarter saw equity markets sell off sharply, led lower by emerging markets. The Fund fell 14.0% over the period, but did better than the market which, as measured by the MSCI AC Pacific ex Japan Index, fell 17.2% (in US dollar terms).

The market's mood in the last three months was influenced by weakening Chinese economic data and the belief that an interest rate increase in the US was imminent. The change to China's currency regime (which prompted a 2.7% drop in the Yuan's exchange rate against the dollar) spooked investors who were already skittish. The immediate interpretation was that this represented devaluation, an active policy decision to weaken the currency which must therefore mean policymakers in China were beginning to panic.

Market action over the period has taken the form of dollar strength, a withdrawal of liquidity from emerging markets (resulting in pronounced currency weakness amongst the more indebted nations) and valuation compression in equity markets. The MSCI AC Pacific Index ended the quarter trading on an historic Price-to-Book multiple of 1.2x and a trailing Price-to-Earnings multiple of 10.7x. Looking over the past twenty years, these levels are crisis valuations.

Performance drivers

The focus of this Fund is companies that have demonstrated competitive advantages by generating a return on invested capital above the cost of capital over time. We look to invest in those companies which we believe can sustain those returns but where the market is valuing them on the basis that they won't.

This approach continued to work for the Fund during this particularly testing period. Out of the 36 holdings, 22 names outperformed and 14 underperformed. The top three performers (which rose during the period) included two Chinese names: AAC Technology, which makes smartphone components, and Shenzhou International, a textile and garment maker. The relative performance of the Fund was also supported by Taiwanese technology names including Asustek, Catcher Technology, Hon Hai and Taiwan Semiconductor. These businesses all benefit from ongoing consumer demand for high-end hand held devices, be they smartphones or tablets.

Looking at performance on a sector basis, consumer stocks, telecom services and information technology were the strongest contributors. The weakness was concentrated in banks and in energy. Chinese banks had a hard quarter, with China Merchants Bank, the best performer, down 17.2% and China Minsheng Bank, the weakest, down 29.7%. There were some earnings downgrades associated with these returns, but these were modest: the weakness was largely due to valuation compression on weak sentiment. Energy stocks CNOOC in China and PTT in Thailand were also down heavily as the oil price weakened further.

Portfolio changes

Clearly, market conditions caused us to review our holdings and ensure that the assumptions underpinning our original decision to buy still held. We maintain our view on China. Though facing challenges, it is not an economy in crisis; there is no danger of capital flight of the kind that has hit Brazil and Turkey, for example, and the central bank has ample scope to manage domestic liquidity conditions. We also hold on to the view that the market weakness we have seen does not reflect material changes to

operating conditions. Our response has therefore been to rebalance into the weakness.

There have been two stock changes. At the start of the quarter Huabao International decided, after seven years, to omit its final dividend. The company justified this by highlighting the special dividend paid on top of its ordinary dividend at the interim stage and uncertain industry conditions ahead. We sold the position and purchased Aflac Inc, a US-listed health insurer that generates much of its business in Japan. The second stock change was triggered by the acquisition of iiNet, an internet service provider in Australia, by TPG Telecom. We purchased Largan Precision in its place, a manufacturer of high-end camera lenses.

Outlook

We maintain our focus on those companies whose prospects we believe are undervalued by the market. Our emphasis on cash-based returns on investment and on those companies that can offer a growing dividend stream on the back of those returns is an attractive combination, in our opinion. Slower growth in Asia is the reality and in part a function on slower trade growth (which the World Trade Organisation now expects to grow only 1.5% this year and 3% next year), that is in turn a reflection of a relatively weak global economy. In our view this has been more than priced in to Asian markets and our portfolio of companies that have demonstrated their ability to sustain profitability through difficult operating conditions in the past is trading at a discounted valuation to the overall market.

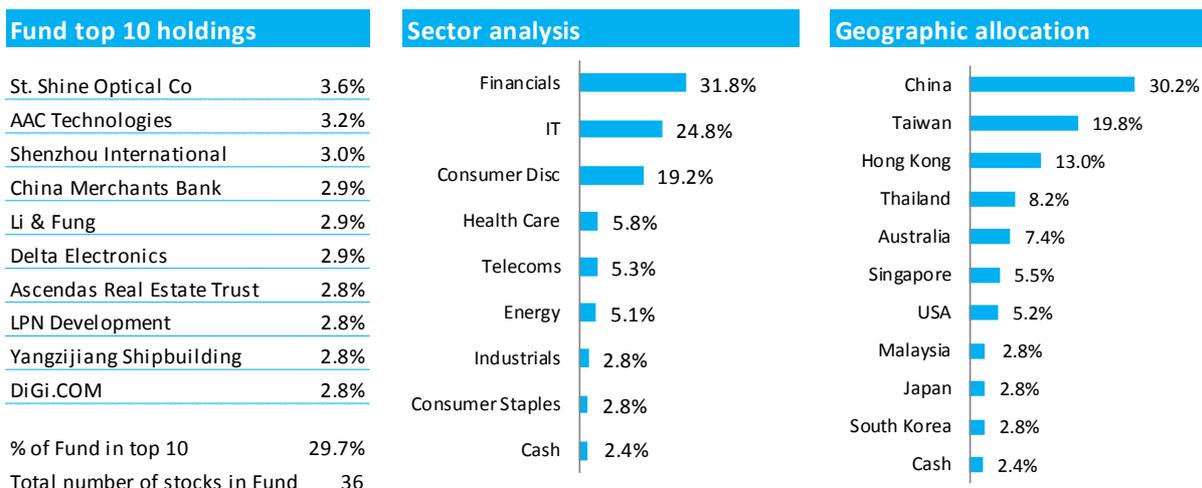
Edmund Harriss
Mark Hammonds

October 2015

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30/09/2015



PERFORMANCE

30/09/2015

Discrete years % total return (GBP)	Sep '11	Sep '12	Sep '13	Sep '14	Sep '15
Fund (X class, 0.75% AMC)	-	-	-	-	3.2
MSCI AC Pacific ex Japan Index	-10.9	17.2	8.3	4.0	-9.2
IA Asia Pacific ex Japan	-12.1	14.6	7.2	6.8	-7.9

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	From launch
Fund (X class, 0.75% AMC)	0.5	-3.4	3.2	-	14.1
MSCI AC Pacific ex Japan Index	-1.0	-12.0	-9.2	2.3	-4.2
IA Asia Pacific ex Japan	-1.1	-10.4	-7.9	5.5	-0.9

Annualised % total return from launch (GBP)



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

30/09/2015	Index	Sector	Fund
Alpha	0	1.55	10.07
Beta	1	0.82	0.82
Information ratio	0	0.57	1.74
Maximum drawdown	-25.55	-23.20	-19.85
R squared	1	0.94	0.79
Sharpe ratio	-0.01	0.00	0.37
Tracking error	0	3.29	6.05
Volatility	13.23	12.00	12.15

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Source: Financial Express, bid to bid, 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, 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. The paying agent is Banque Cantonale de Genève, 17 Quai de l'Île, 1204 Geneva, Switzerland.

Telephone calls may be recorded and monitored.

GUINNESS

ASSET MANAGEMENT LTD

Guinness Asset Management Ltd is authorised and regulated by the Financial Conduct Authority

Tel: +44 (0) 20 7222 5703

Email: info@guinnessfunds.com

Web: guinnessfunds.com