# Guinness Asian Equity Income Fund

## INVESTMENT COMMENTARY – December 2015

| | |
|---|---|
| **Launch date** | **19.12.13** |
| **Team** | **Edmund Harriss** (manager)<br>**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)

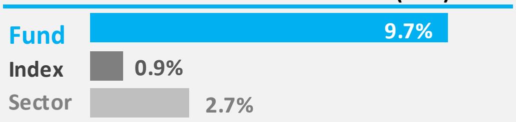
30/11/2015

| | |
|---|---|
| **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** | 1.3 | 0.1 | 19.7 |
| **Index** | -6.5 | -7.8 | 1.8 |
| **Sector** | -4.8 | -6.4 | 5.3 |

**Annualised % total return from launch (GBP)**




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

| | Index | Sector | Fund |
|---|---|---|---|
| **Alpha** | 0 | 1.5 | 8.8 |
| **Beta** | 1 | 0.9 | 0.8 |
| **Info ratio** | 0 | 0.4 | 1.4 |
| **Max drwdn** | -25.6 | -23.2 | -19.9 |
| **Tracking err** | 0 | 3.7 | 6.0 |
| **Volatility** | 14.1 | 12.4 | 12.7 |
| **Sharpe ratio** | 0.0 | 0.0 | 0.5 |

**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.

## Markets

Asian stock markets, as measured by the MSCI AC Pacific ex Japan Index, fell 2.2% in November putting them 9.2% lower this year. The Fund did a little better than the region in November and remains 7.0% ahead in the year to date, albeit still down 2.2% (in US dollar terms). What should be of most interest in this uninspiring market performance is that Asia's valuations suggest an economic crisis that in fact is nowhere evident. On a price-to-book basis, the current multiple of 1.3 times has only been lower in 1998 (the Asian financial crisis), 2001 (US terror attacks) and 2008 (global financial crisis). In all cases global activity all but stopped, and in 1998 and 2008 financial liquidity was interrupted for a prolonged period. These conditions do not prevail today.

So what's driving this? Weaker external demand dragging on exports from Asia is certainly a factor. In almost all cases Asian governments are adjusting policy settings to support domestic demand. China worries have been knocking around, for years in fact, but these look overblown. Chinese growth is slowing and debt levels are high. There are clearly big challenges, but there is still significant room for policy manoeuvre, political will and financial resources available to manage this. China certainly has not let up on its financial reform programme, and the inclusion of its currency in the IMF's Special Drawing Rights basket and its arrival as a reserve currency reflects the IMF's acknowledgement of the progress China has made.

Perhaps, then, the underlying reasons can be found in the diverging fortunes of the US and Europe. While the US with its stronger economy is set to raise interest rates, the European Central Bank is positioning itself to do what it must to support growth, which means more liquidity support and monetary easing. Amidst this sizeable macro uncertainty, capital is being drawn back to the US, and the dollar exchange

**Tel: +44 (0) 20 7222 5703**
**Email: info@guinnessfunds.com**
**Web: guinnessfunds.com**



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

rate is now at its highest since early 2003, 21% above the 10 year average and 4% above the average of the last 40 years.

The effect of this flow of capital into dollar assets has been felt especially keenly in emerging markets, which were the recipients of substantial flows in recent years from investors seeking yield. They were also beneficiaries of other trends: from higher consumption in developed markets in response to low interest rates and government stimulus; and a reacceleration in Chinese growth in 2009-11 focused in particular on real estate and infrastructure construction. As these trends have subsided or gone into reverse, emerging markets, with their relatively shallower economies and markets, have felt the chill the most.

However, not all emerging markets are created equal, and herein lies the opportunity. Now that Asia's valuations are at multi-year lows, we need to ask ourselves whether Asian economies are more robust and the cash flows they can generate more sustainable than markets are pricing in. The region is unique amongst emerging markets in economic breadth, with resources, export manufacturing and domestic consumption all contributing to growth. Rising consumption, paid for by real wage growth after years of growth of high-end manufacturing, now gives the region self-sustaining economic growth. Other resource-heavy economies that relied on higher prices but failed to convert into higher value-added activities lack this internal driver of growth. It is not simply by some happy chance that Chinese annual trade is over $4 trillion a year, or that 47% of the world's $12.5 trillion of foreign exchange reserves are held in Asia ex Japan (and almost $1 in every $5 if we exclude China).

## The Fund

If Asia is a place for doing business for both export and domestic markets, then we should be able to find cash-generative businesses. The Fund seeks to invest in those business that have generated a real cash return on invested capital that has been above the costs of capital each year for at least eight years. This is a high threshold. Our research turns up only 1,547 listed companies in the world (with market capitalisation above $500 million) that have achieved this. With approximately 750 of these in the US and UK alone, Asia's share with 300 companies might appear disproportionate, until we remember the size and scope of markets they serve.

The strength of these businesses, and particularly the cash flows they generate, are being significantly undervalued by the market (in our view), for the reasons we have described. This is especially evident to us in China and Hong Kong, Taiwan and Thailand, and in pockets in South Korea and Singapore. Many Australian stocks appear to us to be overvalued. There are 'good' companies there, but any potential for growth appears 'priced in' (especially when we see how the impact of falling resources prices bears down on the rest of the economy).

To us a cheap company is one where the market underestimates, and hence undervalues, the cash flows and the potential to grow those cash flows that support the dividends. The result of this focus on undervalued persistency is a portfolio that currently trades at a price-to-earnings ratio that is 9% less than the region, which is already cheap. The best performer in November was St Shine Optical, which has continued its strong run of the past two months rising a further 29% in dollar terms. AAC Technology, Novatek Microelectronics, Pacific Textiles and Sonic Healthcare followed, rising 9%-14%. The weakest stock was Qualcomm (-17%), whose travails in China persist. Li & Fung, Luk Fook (a Hong Kong jewellery retailer), Yangzijiang Shipbuilding and China Merchants Bank fell 9%-17%.

**Edmund Harriss** (portfolio manager)
**Mark Hammonds & Sharukh Malik** (analysts)

**November 2015**

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 as a result of market and currency fluctuations.

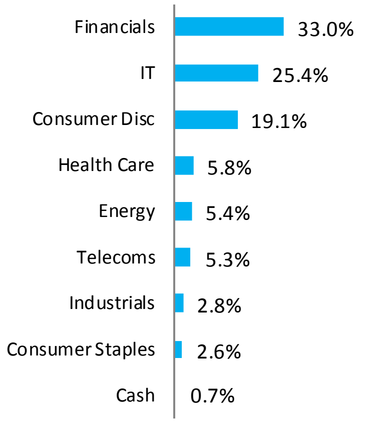
## PORTFOLIO

30/11/2015

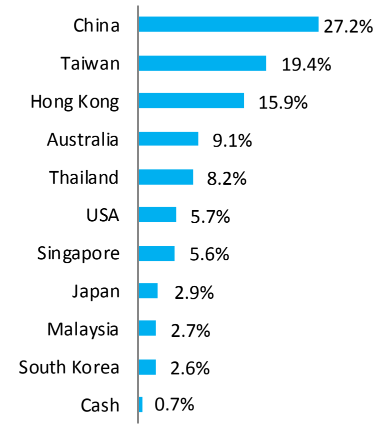
### Fund top 10 holdings

| | |
|---|---|
| AAC Technologies | 3.1% |
| Sonic Healthcare | 3.1% |
| Henderson Group | 3.0% |
| JB Hi-fi | 3.0% |
| Pacific Textiles | 3.0% |
| Novatek Microelectronics | 2.9% |
| Aflac | 2.9% |
| Relo Holdings | 2.9% |
| Largan Precision CO LTD | 2.8% |
| Taiwan Semiconductor | 2.8% |
| % of Fund in top 10 | 29.5% |
| Total number of stocks in Fund | 36 |

### Sector analysis




### Geographic allocation



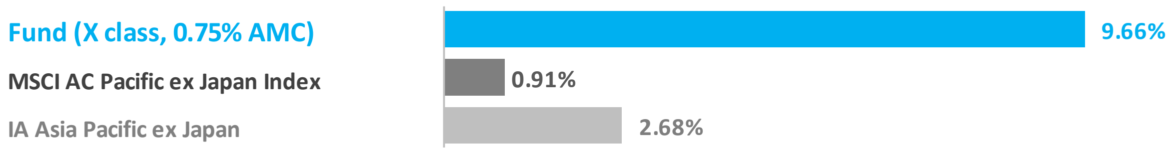

## PERFORMANCE

30/11/2015

| Discrete years % total return (GBP) | Nov '11 | Nov '12 | Nov '13 | Nov '14 | Nov '15 |
|---|---|---|---|---|---|
| **Fund (X class, 0.75% AMC)** | - | - | - | - | 0.1 |
| **MSCI AC Pacific ex Japan Index** | -9.2 | 16.5 | 6.7 | 6.5 | -7.8 |
| **IA Asia Pacific ex Japan** | -12.6 | 14.7 | 5.6 | 9.3 | -6.4 |

| Cumulative % total return (GBP) | 1 month | Year-to-date | 1 year | 3 years | From launch |
|---|---|---|---|---|---|
| **Fund (X class, 0.75% AMC)** | 0.3 | 1.3 | 0.1 | - | 19.7 |
| **MSCI AC Pacific ex Japan Index** | 0.2 | -6.5 | -7.8 | 4.7 | 1.8 |
| **IA Asia Pacific ex Japan** | 0.2 | -4.8 | -6.4 | 8.1 | 5.3 |

### Annualised % total return from launch (GBP)




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

| 30/11/2015 | Index | Sector | Fund |
|---|---|---|---|
| **Alpha** | 0 | 1.52 | 8.82 |
| **Beta** | 1 | 0.81 | 0.81 |
| **Information ratio** | 0 | 0.38 | 1.42 |
| **Maximum drawdown** | -25.55 | -23.20 | -19.85 |
| **R squared** | 1 | 0.94 | 0.82 |
| **Sharpe ratio** | 0.00 | 0.00 | 0.52 |
| **Tracking error** | 0 | 3.65 | 6.00 |
| **Volatility** | 14.14 | 12.42 | 12.71 |

**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.

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 as a result of market and currency fluctuations.

# 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'Ile, 1204 Geneva, Switzerland.

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