Guinness Asian Equity Income Fund

INVESTMENT COMMENTARY – March 2016

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

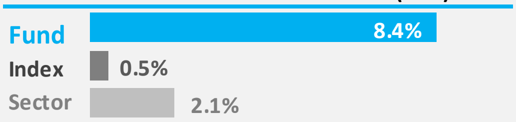
Performance (in GBP) 29/02/2016

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

	2013	2014	2015
Fund	-	17.6	1.2
Index	2.0	7.8	-4.4
Sector	1.9	9.5	-3.4

	YTD	1 year	From launch
Fund	-0.1	-2.2	19.4
Index	-3.0	-11.9	1.0
Sector	-2.2	-10.1	4.6

Annualised % total return from launch (GBP)



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0	0.9	8.1
Beta	1	0.9	0.9
Info ratio	0	0.2	1.4
Max drwdn	-26.2	-24.5	-20.6
Tracking err	0	3.9	5.9
Volatility	15.7	13.7	14.4
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.

Markets

Asian markets as measured by the MSCI All Country Pacific ex Japan Index rose 1.4% in February, in sterling terms leaving them down 3.0% so far this year. The Fund rose 2.4% over the month and is flat in the year to date (-0.1%, in GBP), 2.9% better than the benchmark. However, this obscures a brighter picture: stock markets continued the January weakness into February but since February 11 equities around the world have moved higher and this has continued into March (although Europe and the UK are relative laggards).

We wrote at some length last month explaining why we believed that in the absence of specific new news or events, the behaviour of markets over the first six weeks of the year was puzzling. Sentiment now appears to have levelled out with soothing words coming from central banks and at the recent G20 meeting. Nevertheless, the problems that underlay market fears this year, that were evident before the market sell-off, are still there today: Europe is struggling for growth, the US Federal reserve still feels it needs to be active on interest rates and China still has an economic transformation and debt reduction programme to manage. The issue that we face, as the Bank of International Settlements has pointed out with increasing urgency, is that with the world economy now so indebted and with balance sheets so fragile it may not take much to spark a panic.

The Asian macro-economic picture remains similar to how it was last year. The key point is that while there are challenges in the form of weaker external demand for Asian exports and the inevitable feed-through to domestic consumption, there is no stress in the financial system. Most countries are running trade surpluses, they have levels of debt and especially external debt well below those at the time of the Asian financial crisis, there is room to provide fiscal stimulus and to cut interest rates. When we look at China too, it is apparent that while there are well documented issues with the economic structure and the size of the debt build up it is also apparent that there is time to address them.

Recent news from China has been significantly more 'market friendly' with the currency exhibiting much greater stability since the start of the year. There are signs that outflows of capital are slowing and monetary conditions have eased further with strong growth in new loans and central bank action to increase liquidity both through open market operations and by reducing the amount of customer deposits that commercial banks are required to keep tied up at the Central Bank (the Reserve Requirement Ratio). Residential property prices have also been moving higher helped by loosening mortgage restrictions: this has the effect both of boosting consumer confidence given high urban home-ownership and of assisting in boosting sales of newly completed units which improves the cash flow of property developers.

For the long term however, it is Chinese industrial reform that should be the focus. The measures described above all help to keep the current environment stable but this is only truly valuable if the stability provides the platform for further structural reform. This does seem to be happening. Reuters recently reported that China plans to lay off five to six million state workers in the next two years (a massive retrenchment programme) and to spend RMB150 billion ($23 billion) to fund it. These layoffs are likely to fall in the heavy industrial region in north-east China; managing the impact, the redirection of that labour and the source and permanence of the funding are all valid questions, but this kind of news flow is what we shall watch.

A final word, on oil. The region is a net consumer of oil and has clearly benefitted from lower oil prices. Unlike in the developed world where lower prices pass more directly to consumers (the degree of pass though is subject of course to different tax regimes), in Asia the benefits have been apparent through higher industrial margins and particularly in improved government finances. Many governments in Asia have supported their domestic economies with fuel subsidies which became a crushing burden when oil prices were $100+ per barrel. Lower oil prices enabled them to roll these back which has freed up funds for other investment. Only at the very lowest price levels have benefits accrued directly to consumers. A recovery in the oil price to $50-$70 range as the Guinness Energy Fund team forecasts, once the market comes back toward balance, is unlikely to create instability. China for example paid on average $54.78 per barrel in 2015 down from $101.35 in 2014. Purchase prices have only dipped below $50 per barrel since October last year and thus a rise from current levels to the $50-70 range should not be a source of concern.

Company news

In the past month the main contributors to fund performance have been technology companies, energy and from our retailers in Hong Kong, China and Australia. The relative weakness has most come from those which did so well over the past 6-12 months including St Shine Optical, KT&G Holdings, Relo holdings in Japan and Pacific Textiles. Two positions which do appear to be struggling at the moment are LPN Development in Thailand and Li & Fung.

The stronger performance of Largan Precision and Catcher Technology, both of which are part of Apple's supply chain, follows reports of the forthcoming launch their iPhone 5se 4" on March 15th which is an entry-level replacement for the now discontinued 5c. There has also been speculation about dual camera being included in one of the new 5.5" iPhones which would be of specific benefit to Largan.

Qualcomm has also seen its share price lifted. At a recent investor day it described its strategy to expand both existing mobile businesses, and to move into adjacent opportunities (Internet of Things, Internet of Medical Things, networking, and automotive) that can benefit from communication hardware. Significant development of 5G technology is also underway. The immediate boost to its share price was the resolution of issues surrounding payments from its Chinese customers followed by the news that that they had signed a major licensing agreement with Lenovo, the last remaining of the top five Chinese telephone handset makers. This deal we believe could contribute significantly to licensing revenues.

Sonic Healthcare reported interim results for the period ending 31 December with revenues up 22%, and operating profits before interest, tax and depreciation charges up 25% (though both figures are flattered somewhat by currency tailwinds). International divisions have shown good signs of growth, and now account for 60% of the business. As part of their joint venture with London universities, they are building a new pathology lab on Euston Road, and believe it will be 'the finest lab in the UK'.

JB Hi-Fi in Australia reported earnings for six months ended 31 December. The company is a consumer electronics retailer (principally in Australia, but also in New Zealand). JB Hi-Fi achieved good sales growth in the period (sales up 7.7% with comparable sales up 5.2%) and strong trading over the Christmas period has continued into January. The company is continuing its rollout of HOME stores (larger format, white goods). JB Hi-Fi is a Traditional bricks and mortar retailer, but it is expanding its online presence: "Anywhere up to 80% of customers [start] their journey online before they go in-store".

Chinese banks remain under a cloud because of on-going concerns about asset quality and future provisioning requirements. Operating performance (spreads, margins and operating costs before provisioning) all seem satisfactory and holding up. The stocks offer value and in our opinion are pricing in too much bad debt. Nevertheless, this fund seeks companies that are also able and willing to grow their dividends and this is an area on which we will focus our attention.

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

March 2016

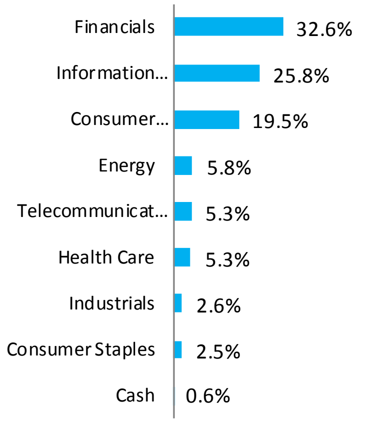
PORTFOLIO

29/02/2016

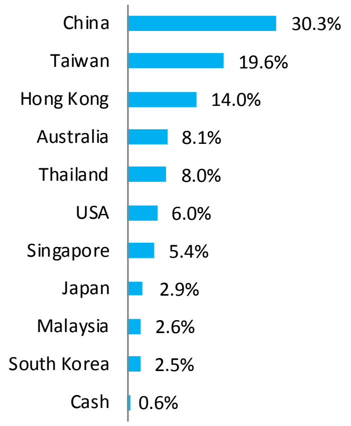
Fund top 10 holdings

Qualcomm	3.1%
Largan Precision CO LTD	3.0%
China Lilang	3.0%
Luk Fook Holdings	3.0%
Catcher Technology	3.0%
PTT Public Company	2.9%
Nagacorp	2.9%
Relo Holdings	2.9%
China Merchants Bank	2.9%
AAC Technologies	2.9%
% of Fund in top 10	29.7%
Total number of stocks in Fund	36

Sector analysis



Geographic allocation



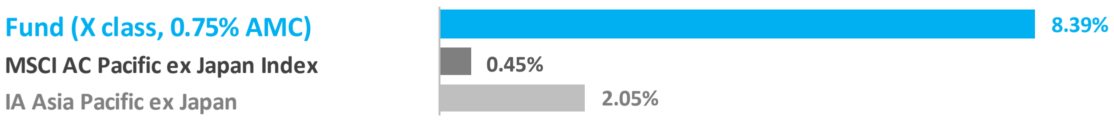
PERFORMANCE

29/02/2016

Discrete years % total return (GBP)	Feb '12	Feb '13	Feb '14	Feb '15	Feb '16
Fund (X class, 0.75% AMC)	-	-	-	24.8	-2.2
MSCI AC Pacific ex Japan Index	3.4	15.9	-10.3	15.8	-11.9
IA Asia Pacific ex Japan	1.8	14.1	-9.0	16.5	-10.1

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	From launch
Fund (X class, 0.75% AMC)	2.4	-0.1	-2.2	-	19.4
MSCI AC Pacific ex Japan Index	1.4	-3.0	-11.9	-8.4	1.0
IA Asia Pacific ex Japan	2.7	-2.2	-10.1	-4.6	4.6

Annualised % total return from launch (GBP)



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

29/02/2016	Index	Sector	Fund
Alpha	0	0.86	8.09
Beta	1	0.85	0.85
Information ratio	0		1.35
Maximum drawdown	-26.15	-24.46	-20.58
R squared	1	0.95	0.86
Sharpe ratio	0.00	0.00	0.39
Tracking error	0	3.87	5.86
Volatility	15.73	13.72	14.44

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.

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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.

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