Guinness Asian Equity Income Fund

INVESTMENT COMMENTARY – June 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 USD)

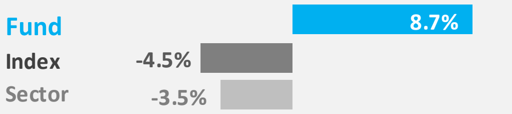
31/05/2016

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

	2013	2014	2015
Fund	-	10.7	-4.4
Index	3.4	2.8	-9.4
Sector	3.8	3.1	-8.6

	YTD	1 year	From launch
Fund	1.0	-13.4	8.7
Index	0.2	-15.6	-4.5
Sector	0.2	-14.6	-3.5

Annualised % total return from launch (USD)



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0	-0.1	4.9
Beta	1	0.9	0.8
Info ratio	0	0.1	0.9
Max drwdn	-28.5	-26.7	-24.3
Tracking err	0	3.5	5.9
Volatility	15.6	14.1	13.4
Sharpe ratio	0.0	0.0	0.0

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 USD.

Markets

Asian stock markets, as measured by the MSCI AC Pacific ex Japan Index, are now back to where they were at the beginning of the year, although of course this reflects diverging fortunes. Measured by the individual MSCI country indices, China has been the weak performer this year (down almost 6%) and this has dampened the performance in Hong Kong and South Korea. The greatest strength was in Southeast Asia, with Thailand up 18% and Indonesia and the Philippines rising 7% and 8% respectively. The leading sectors in the region have been Energy and Materials, up almost 10%, followed by Telecoms, Healthcare and Consumer Staples, each up between 4% and 5%.

It may come as a surprise to discover that the Fund's asset allocation shows us to be overweight in all the weakest markets including China (with the exception of Thailand where the fund is overweight) and underweight all the leading sectors (with the exception of Healthcare where the fund is overweight).

Nevertheless, in the year to date the Fund is ahead of its benchmark and is up on the year.

It is not a point of pride that we appear to have positioned the Fund to avoid the best performing markets and sectors but is instead a reminder that the portfolio is built from the bottom up, invested in good businesses which we believe are undervalued by the market. This year has proved to be challenging for investors, with acute macro fears on China, oil and US interest rates leading to a sharp sell-down in January and February, followed by a rapid turnaround from February through to April and then drifting off once again. In such conditions a focus on businesses, cash flows and income streams provides much greater certainty than attempting top-down macro calls which are first accentuated and then negated by extreme swings in sentiment.

In the year to date our leading stocks have been in the Consumer Staples, Consumer Discretionary, Insurance, Healthcare, Real Estate and Technology sectors, and located in Australia, China, Korea, Taiwan, Japan and the US.

Operating conditions in Asia are little changed. China is retreating from the overt stimulus we have seen this year while Chinese monetary conditions remain stable. In the absence of regular monetary policy updates we look at overnight and 7-day repo rates which are the primary mechanism whereby the central bank regulates the money markets. These still point to a moderately loose monetary policy which is consistent with recent pronouncements. The renminbi weakened by 1.7% against the dollar in May with the reference rate set to its weakest against the dollar since March 2011. There has been no panic this time, coming as it does following a period of renewed dollar strength, and even as the renminbi has weakened against the dollar, on a trade weighted basis it still strengthened 1.1% during the month.

The region cannot avoid feeling the impact of lower world trade growth which is still below the rate of world nominal GDP growth. This means that at a macro level the emphasis for Asian central banks remains on supporting domestic growth and thus we see throughout the region that central banks maintain a dovish monetary policy stance. The success with which they effect this policy through their financial systems varies. Just as in China, headline policy rates do not always give a good guide. Changes in monetary policy settings are usually transmitted through the interbank markets; in Southeast Asia Thailand's is the most effective, and Thailand was the only Southeast Asian market to report stronger than expected GDP growth in the first quarter.

At this point we see Asian economies in a stable state with national accounts for the most part in surplus, inflation low, and sufficient domestic liquidity with scope for regional central banks to increase it if they wish. Lower oil and commodity prices have certainly been a benefit but we cannot ignore that not all the factors behind lower oil prices have been so benign. Weak global trade continues to weigh on regional macro data. All central banks in the region remain dovish but are reluctant to cut rates for the moment. Monetary support is being provided through channels other than headline interest rates: namely interbank liquidity and fiscal support.

These conditions are a reminder that average companies, ones that are more reliant on faster growth (be it export growth or domestic growth) for profitability, will struggle. It emphasises the importance of our proposition that those businesses with good business models in the first instance – with strong cash flows and defensible margins and market share – are the place to invest, and that the persistence of higher returns on investment is the best measure of quality.

None of this, in our opinion, justifies the low stock market valuations prevailing in Asia. However, it does give us room to find value. While the market looks for quality businesses in terms of return on invested capital we believe it still tends to undervalue persistence. The threshold we set for measuring both return on investment and persistence is matched by only roughly 1,500 companies worldwide. It is a high bar. The caution that pervades Asian investment means that we are able to put together a portfolio of such companies trading at earnings multiples well below the market average and with dividend yields well above.

Performance drivers

In May, twenty-two out of thirty-six names outperformed giving us the best month in relative performance terms this year. To give some perspective, the Fund outperformed falling markets in January and February and it underperformed the 14% rebound from the end of February to the middle of April. In May the Fund rose 0.1% (in USD) and the market fell 1.6% which puts it up 1.0% for the year to date.

The leading stocks in May with positive returns were in the Technology, Healthcare and Financials sectors. Those stocks linked to consumer technology (i.e. handheld devices) did best with Largan Precision, AAC Technology, Qualcomm, and Catcher Technology rising 8%-20% in the month. Taiwan Semiconductor Manufacturing and Hon Hai Precision (the technology manufacturing conglomerate) also rose. In Healthcare, St Shine Optical (contact lenses) and Sonic Healthcare (pathology and diagnostic services) both performed well. The contribution from Financials came from asset management (Henderson) and insurance (Aflac) together with three banks: BOC Hong Kong, DBS in Singapore and China Minsheng Bank.

Underperforming stocks included Chinese apparel and two of our four Chinese banks. This group has been weak all year although performance from Chinese banks has picked up recently. Two of our Singapore REITs, Ascendas and CapitaMall, were down 4% and 6% respectively but are still amongst our best performers for the year so far. Three stocks which remain resolutely weak are Li & Fung, Thai real estate developer LPN Development and Chinese footwear designer and distributor Belle International.

Portfolio

We made no changes to the portfolio beyond some rebalancing. The Fund remains overweight to China & Hong Kong by 3%, Taiwan by 8% and Thailand by 7%, and is 15% underweight to Australia and 13% underweight to Korea. On a sectoral basis, the biggest overweight positions are to Consumer Discretionary (6%), Technology (5%) and Healthcare (3%) and the main underweight positions are to Industrials, Materials and Utilities.

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

June 2016

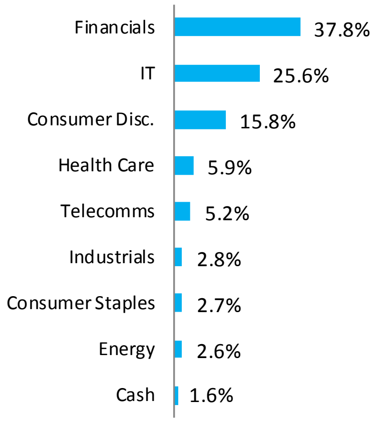
PORTFOLIO

31/05/2016

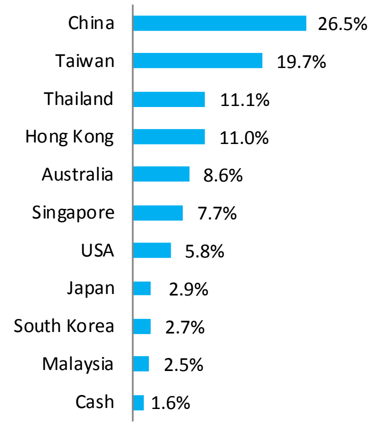
Fund top 10 holdings

Delta Electronics	3.2%
St. Shine Optical Co	3.1%
Qualcomm	3.0%
BOC Hong Kong	2.9%
Henderson Group	2.9%
Catcher Technology	2.9%
Luk Fook Holdings	2.9%
Relo Holdings	2.9%
Sonic Healthcare	2.9%
JB Hi-fi	2.8%
% of Fund in top 10	29.3%
Total number of stocks in Fund	37

Sector analysis



Geographic allocation



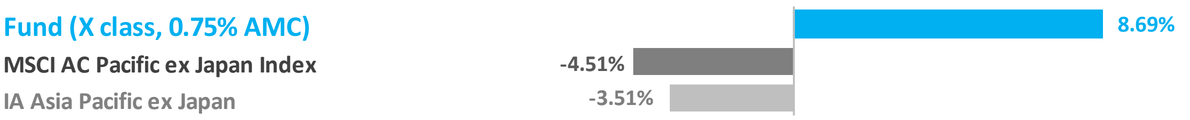
PERFORMANCE

31/05/2016

Discrete years % total return (USD)	May '12	May '13	May '14	May '15	May '16
Fund (X class, 0.75% AMC)	-	-	-	19.4	-13.4
MSCI AC Pacific ex Japan Index	-17.8	20.9	8.8	5.0	-15.6
IA Asia Pacific ex Japan	-17.9	22.0	6.8	5.2	-14.6

Cumulative % total return (USD)	1 month	Year-to-date	1 year	3 years	From launch
Fund (X class, 0.75% AMC)	0.1	1.0	-13.4	-	8.7
MSCI AC Pacific ex Japan Index	-1.6	0.2	-15.6	-3.5	-4.5
IA Asia Pacific ex Japan	-1.5	0.2	-14.6	-4.1	-3.5

Annualised % total return from launch (USD)



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

31/05/2016	Index	Sector	Fund
Alpha	0	-0.08	4.87
Beta	1	0.88	0.79
Information ratio	0	0.07	0.91
Maximum drawdown	-28.49	-26.72	-24.26
R squared	1	0.96	0.86
Sharpe ratio	-0.01	-0.01	0.00
Tracking error	0	3.49	5.90
Volatility	15.63	14.07	13.35

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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