INVESTMENT COMMENTARY – September 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)

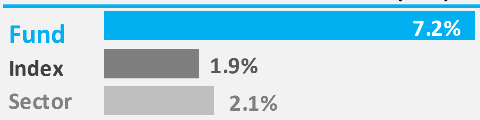
31/08/2016

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	12.2	13.1	20.7
Index	10.3	13.3	5.1
Sector	9.9	12.4	5.9

Annualised % total return from launch (USD)



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0	0.2	5.6
Beta	1	0.9	0.8
Info ratio	0	0.0	0.9
Max drwdn	-28.5	-26.7	-24.3
Tracking err	0	3.8	5.8
Volatility	15.5	14.0	13.3
Sharpe ratio	0.0	0.0	0.3

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

The region has continued to build on its outperformance of developed markets which began at the end of May and was sustained through the turbulence following the UK referendum. There are a number of possible explanations for this but we continue to argue that there is much further to go.

- First, there is a valuation gap that needs to correct. The Asian region is still trading at a 30% discount to developed markets which reflects conditions more akin to crisis. The region's economic stability makes Asian markets look more attractive compared to more troubled regions including Europe.

- Second, perceptions about China's economic performance have settled in recent months. The currency has been stable and capital outflows have now slowed to a pace that matches the net inflows resulting from the trade surplus. This gives the central bank room to focus their efforts almost exclusively on managing domestic monetary conditions. Recent bank results show slower new non-performing loan formation and higher write-offs that point to a situation that is being addressed.

- Third, there is a cyclical recovery underway led by commodity prices and feeding into heavy industrial products such as steel and cement which is bringing producer price deflation to an end. China's industrial producers have seen their product prices fall for 4½ years which has been tough for companies weighed down by excess capacity and debt. An improvement in pricing coupled with the effects of operating leverage should see a pick-up in earnings growth in the region as well as easing the debt-servicing burden in those sectors where risks are seen to be highest.

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Our approach to macro analysis is focused on two areas. We want to form a view of the conditions that specifically impact upon the ability of the companies held in the fund to continue to generate the cash flow returns on invested capital that they have achieved in the past; and we want to know how these conditions will impact on stock valuations and specifically on the discount rate used to value those cash flows. For the most part, operating conditions have not been especially challenging for the high-quality well-managed businesses in which we are invested. Monetary conditions have been accommodative, interest rates have been low and inflation benign. Slower trade growth has been a headwind, certainly, but it has not derailed consumption or placed finances under strain.

The issue from the macro-perspective has been felt in Asia through investors' perceptions of higher risk, transmitted through the discount rate (the risk free interest rate on US treasuries plus an equity risk premium) that has manifested through depressed valuations. The risk free rate as measured by the 10 year US Treasury is at record lows but Asia has been priced, through an elevated equity risk premium, for a catastrophe that has not occurred. Indeed the prospects for disaster that seemed so imminent at the start of the year have receded steadily such that the region now looks relatively safer than other developing regions.

Conditions for investment are never perfect, and by the time the stars align stocks have often fully reflected it – and more. At present, the world is less certain than ever and we believe that businesses that have proven their worth by creating wealth on a sustained basis are where we should invest. As long as investors remain fearful we perceive there are opportunities to buy into businesses whose stock prices imply a significant underestimation of their prospects. Thus, in Asia we at Guinness have a portfolio of thirty-six businesses that have sustained a return on investment profile matched by only 1,900 listed companies in the world, and yet trades on a 20% P/E discount to the region – a region that is at a 30% discount to developed world markets, even after recent outperformance.

Performance

Since the middle of the year the best performing markets, as measured by the relevant MSCI country index, have been New Zealand, China, Thailand, South Korea and Taiwan, rising between 9% and 13% in the past two months. The pick-up in China (Chinese companies traded in Hong Kong and elsewhere) is probably the most notable since this is an area that has underperformed consistently for the past four years.

On a sector basis, technology has been the strongest and this reflects a sector preference also evident in other regions this year. The focus, in the absence of significant corporate investment, has been on consumer technology, especially handheld devices and displays rather than personal computers, which have been in decline. Materials, consumer discretionary and financials, especially banks, have been the other strong performers.

In the portfolio, stocks' performances have largely reflected the geographic and sector results over the past two months. AAC Technologies, Largan Precision and Qualcomm (held due to its substantial revenues from China) have been our best performing technology names. BOC Hong Kong, our Chinese banks and Tisco Financial (a Thai finance company specializing in auto finance) have led the way in the financials space. However, performance has also been supported by strong returns from Australian retailer JB Hi-Fi, Taiwanese healthcare business St Shine Optical and from China/Hong Kong textile and apparel maker Pacific Textiles.

Out of thirty six holdings there were seven which fell over the period. The three weakest were Relo Holdings and KT&G Group, which fell 19% and 12% respectively but are still up 18% for the year, and Yangzijiang Shipbuilding whose margins remain under pressure. Of the remaining four stocks, DBS in Singapore gave back some its recent gains following a debt default by one of its customers, Swiber Holdings which we discussed last month, China Lilang, Catcher Technology and Novatek which were down between 1% and 4% over the period.

What we look for in our approach to stock selection and portfolio construction is a broad spread of performance contributions. We select our thirty-six best ideas and put them into an equally weighted portfolio, rebalancing from time to time to recycle gains into laggards, which has the added benefit of lowering stock-specific volatility and risk. In the last two months performance has been closely linked to certain geographies and sectors but over the year to date it is spread across Australia, Taiwan, Thailand, Singapore, Korea, Japan and China and across seven sectors including banks, consumer (staples and discretionary), energy, healthcare, real estate, and technology.

Outlook

Last month we wrote that we expected the fund would underperform the market amidst stronger conditions and that has been the case – but not by much. A distinctive characteristic of this fund has been its relative strength in down markets which, combined with good upside capture (85% in July and August), has kept the fund ahead of its benchmark. We believe that after a long period in the wilderness, Asia has a fair bit of catching up to do. Stock prices have shown reasonable strength since May and a recovery in earnings could sustain that well into next year. To those who, quite reasonably, remain wary we suggest that investing in the best quality businesses you can find with dividends supported by solid cash flows is a good first step into the region.

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

September 2016

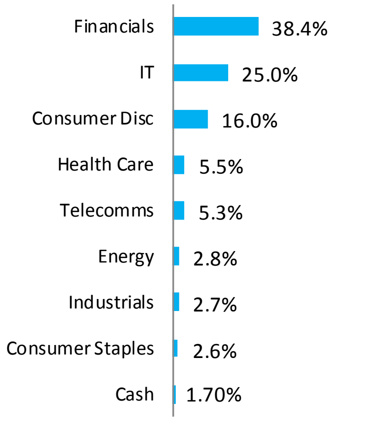
PORTFOLIO

31/08/2016

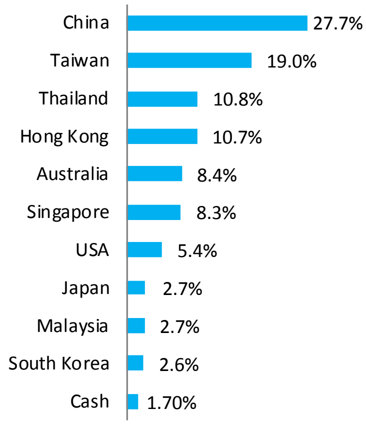
Fund top 10 holdings

AAC Technologies	3.3%
JB Hi-fi	3.1%
China Merchants Bank	3.0%
ICBC	3.0%
China Construction Bank	2.9%
St. Shine Optical Co	2.8%
Novatek Microelectronics	2.8%
Delta Electronics	2.8%
PTT Public Company	2.8%
Ascendas Real Estate Trust	2.8%
% of Fund in top 10	29.4%
Total number of stocks in Fund	37

Sector analysis



Geographic allocation



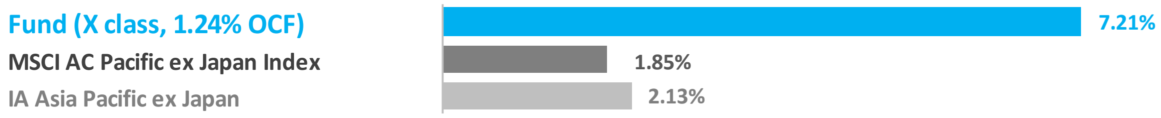
PERFORMANCE

31/08/2016

Discrete years % total return (USD)	Aug '12	Aug '13	Aug '14	Aug '15	Aug '16
Fund (X class, 1.24% OCF)	-	-	-	-6.4	13.1
MSCI AC Pacific ex Japan Index	-1.7	7.1	21.0	-18.8	13.3
IA Asia Pacific ex Japan	-3.2	6.4	20.9	-16.9	12.4

Cumulative % total return (USD)	1 month	Year-to-date	1 year	3 years	From launch
Fund (X class, 1.24% OCF)	1.6	12.2	13.1	-	20.7
MSCI AC Pacific ex Japan Index	2.1	10.3	13.3	11.4	5.1
IA Asia Pacific ex Japan	1.5	9.9	12.4	12.9	5.9

Annualised % total return from launch (USD)



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

31/08/2016	Index	Sector	Fund
Alpha	0	0.18	5.56
Beta	1	0.88	0.79
Information ratio	0	-0.01	0.88
Maximum drawdown	-28.49	-26.72	-24.26
R squared	1	0.95	0.87
Sharpe ratio	0.00	0.00	0.31
Tracking error	0	3.75	5.84
Volatility	15.52	13.99	13.26

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. 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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