Guinness Asian Equity Income Fund

INVESTMENT COMMENTARY – December 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.

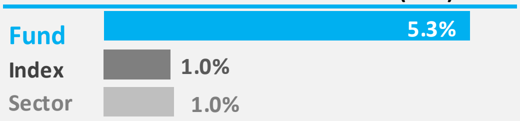
Performance (in USD) 30/11/2016

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	8.2	5.8	16.4
Index	8.0	8.3	2.8
Sector	7.0	6.4	3.0

Annualised % total return from launch (USD)



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0	-0.3	4.4
Beta	1	0.9	0.8
Info ratio	0	-0.1	0.7
Max drwdn	-28.5	-26.7	-24.3
Tracking err	0	3.7	5.8
Volatility	15.3	13.9	13.0
Sharpe ratio	0.0	0.0	0.1

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.

Monthly update

The US presidential election marks a change in direction for domestic economic policy and possibly for trade and diplomatic relationships. Detailed policies from the President-elect are not yet available, but estimates from the Committee for a Responsible Federal Budget based on policy proposals during the election campaign suggest net government borrowing could be more than $5 trillion over the next decade as a result of higher infrastructure spending, higher minimum wages, and tax cuts, among other things. The immediate effect was to push US equities to new highs and for yields on US Treasuries to rise (although in the case of the 10 Year Treasury only to the level it was a year ago).

Although financial markets in the US have moved sharply on expectations of future policies, there are myriad questions on the detail, speed and extent of their implementation as well as how they are funded. The estimate above assumes US real GDP growth grows by 2% per annum. However, deregulation, lower corporate taxes and government spending to spark a new investment cycle could well push that growth rate higher. Faster domestic growth and interest rates back at 2%-3% is a picture we would like to see.

Markets

- **Interest rate** increases in the US are unlikely to hold many fears for the region. Most countries in Asia are running trade surpluses, foreign debt exposure is not high, banks are well capitalised and inflation is low. There are exceptions, with Indonesia and Philippines looking more exposed than the rest, but overall the picture is stable.

- **Trade agreements** with all the US's trading partners appear to be up for renegotiation and the uncertainty this brings is undoubtedly a risk for Asia. It will also be a risk for the US. Protectionism will impact demand for goods produced in the global supply chain and will inevitably increase costs for US consumers who will no longer be able to find a laptop computer for $400, for example.

- **Diplomatic relations** also appear to be changing, with a clear 'not business as usual' message when Trump spoke to President Tsai. There is a very powerful nationalist element in China which its leadership sometimes struggles to rein in, and which has issued a hyperbolic response matched to some degree by the western media. In truth, it is likely that China has been wrong-footed and its officials are now scratching their heads and trying to work out how to deal with someone prepared to disregard the rules. This too is not necessarily a bad thing, but we hope the advice Trump is getting is informed rather than merely opinionated.

- **Domestic Asia issues** seem to us have greater immediacy than events in the US. Growth momentum in China has risen with the return of pricing power and accompanying profit growth in the heavy industrial sector. This is likely to make debt servicing easier and, if sustained, make room for banks to manage their liabilities better. However, credit growth is still strong and excess production capacity still exerts a drag. These create both inflationary and deflationary pressures, making China's monetary policy setting more of a challenge. The domestic economies of South Korea and Thailand are both affected by political issues: a presidential scandal and impeachment in South Korea and the death of the King in Thailand.

Investment review

The most sensible approach, it seems to us, is to focus on what it is we're actually buying rather than attempt to manage around swirling events and themes.

We invest in companies that have long track records of generating returns on invested capital that have exceeded the cost of capital. These companies generally continue to do so and on this basis we regard them as 'quality' businesses. Histories of strong operating performance and the likelihood of their persistence give us greater confidence in identifying those companies that we believe are undervalued by the market. This focus on quality defined in terms of the persistence of strong financial performance coupled with a value discipline delivers what we believe to be a distinctive and attractive risk/return profile.

In the course of 2016 we have seen strong performance from stocks ranging from Australian healthcare (Sonic Healthcare) through Chinese banks (China Construction and China Minsheng) and Hong Kong retail (Luk Fook) to Japanese real estate services (Relo Holdings) and technology companies across the region (AAC Technology in China, Qualcomm in the US, Largan Precision in Taiwan). The common feature for all them is track record of generating above average returns on invested capital and an underestimate by the market of the persistence of those returns.

Clearly, not all stocks are going to move higher at the same time, but we have confidence in all our thirty-six names and those that are currently lagging are added to as we rebalance the portfolio. This year notable laggards have been Li & Fung in Hong Kong (a production outsourcing agent), Chinese retailers Belle International and China Lilang, Bangkok-based property developer LPN Development and Taiwanese technology companies Catcher Technology and Novatek Microelectronics.

In January we shall produce a more detailed review of our companies and their stock performance over the past year. Until then, we send you the season's greetings and wish you all the best for 2017.

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

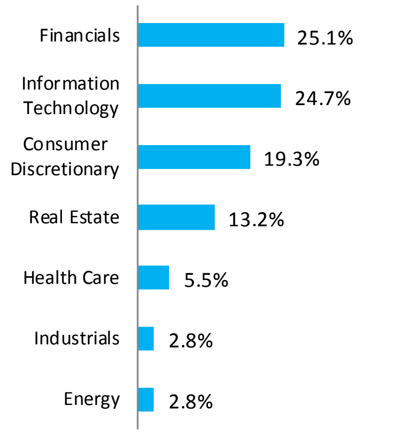
PORTFOLIO

30/11/2016

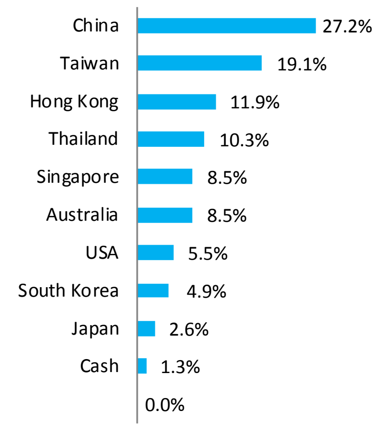
Fund top 10 holdings

Luk Fook Holdings	3.4%
Largan Precision	3.2%
DBS Group Holdings	3.1%
BOC Hong Kong	3.0%
Qualcomm	2.9%
JB Hi-fi	2.9%
Sonic Healthcare	2.9%
China Minsheng Banking	2.9%
ICBC	2.9%
China Lilang	2.9%
% of Fund in top 10	30.2%
Total number of stocks in Fund	36

Sector analysis



Geographic allocation



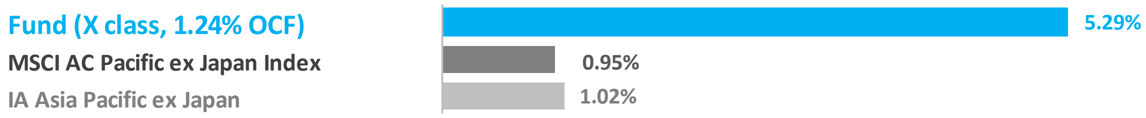
PERFORMANCE

30/11/2016

Discrete years % total return (USD)	Nov '12	Nov '13	Nov '14	Nov '15	Nov '16
Fund (X class, 1.24% OCF)	-	-	-	-3.8	5.8
MSCI AC Pacific ex Japan Index	18.6	8.0	3.7	-11.6	8.3
IA Asia Pacific ex Japan	16.8	8.0	4.5	-10.0	6.4

Cumulative % total return (USD)	1 month	Year-to-date	1 year	3 years	From launch
Fund (X class, 1.24% OCF)	-2.5	8.2	5.8	-	16.4
MSCI AC Pacific ex Japan Index	-2.2	8.0	8.3	-0.7	2.8
IA Asia Pacific ex Japan	-2.6	7.0	6.4	0.0	3.0

Annualised % total return from launch (USD)



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

30/11/2016	Index	Sector	Fund
Alpha	0	-0.31	4.39
Beta	1	0.88	0.79
Information ratio	0	-0.10	0.74
Maximum drawdown	-28.49	-26.72	-24.26
R squared	1	0.94	0.87
Sharpe ratio	0.00	0.00	0.14
Tracking error	0	3.71	5.75
Volatility	15.27	13.87	13.04

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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