Thoughts on investing from the managers of

Guinness Asian Equity Income Fund

Objective	Aiming for income and capital growth, the Fund invests in high quality dividend-paying companies in the Asia Pacific region		**Edmund Harriss** (manager)
Discipline	Buys companies with persistently high return on capital over the last eight years		**Mark Hammonds** (analyst)
Conviction	Concentrated, equally-weighted portfolio of 36 stocks		**Sharukh Malik** (analyst)

"Blue skies" thinking in China

The Chinese leadership is promising to "make our skies blue again" in a popular move to address an issue that has given rise to public protests across China against the industrial smog that blights so many cities. The solution to a pressing economic problem is now linked to an emotive popular issue. The pollution is the result of coal burning by heavy industry, the very sector that is weighed down by excess capacity and debt, threatening China's economic survival. The government needs this sector to cut debt and capacity but they have encountered resistance from local governments and vested interests. Environmental reasons have been used before by central government as a tool to push through change. Now they appear to be leading with it.

At the opening of China's annual National People's Congress, the premier Li Keqiang promised "We will make our skies blue again" by tackling pollution caused by coal burning for heat and power. The economic growth target has been set at "around 6.5 percent or higher, if possible". This is lower and more flexible than last year's target and suggests a more determined approach to economic reform and closure of excess industrial capacity at the expense of growth.

China produces over 1 billion tonnes of steel and almost 3.5 billion tonnes of coal each year, far more than it needs. Over the next 3-5 years it is China's stated aim to close 140 million tonnes of steel and 800 million tonnes of coal capacity and there are those who say that this is too modest. Many feel that progress towards addressing excess capacity and the growing debt issue associated with it has been too slow.

Debt concerns have dominated the minds of investors and policymakers alike in recent years as the rate of new lending has increased at over twice the rate of economic growth. Fears of imminent collapse have been misplaced as China clearly does have the capacity to absorb more. But two things are certain: they cannot do so indefinitely, and the longer the problem persists the harder, and riskier, it will be to unwind.

The obstacles are significant. Excess capacity industries tend to be major employers and tend to dominate their local economies. They are often poorly run and require both economic growth and new credit to survive. Under China's complex system of government, it is often lower tiers of government that have direct control over this excess capacity. Indeed, central government is said to control no more than 50% of China's steel industry, limiting its ability to take direct action.

There are often substantial vested interests associated with these businesses that have grown up under China's investment boom. Career prospects for local government officials have long depended on delivery of economic growth and the deleveraging process and industrial closures have the opposite effect. In China, economic clout and patronage are bound together with political power.

The particular emphasis on environmental issues by the leadership represents a shift in approach. They are aware of public concern about pollution since there have been widespread protests, which are always a worry to them. But the leadership too is frustrated with the slow progress made and the foot-dragging by local business and government officials, so environmental issues, in response to popular demand, are the stick with which to beat them. And by introducing some flexibility into the growth target, local officials now know that their future career prospects are now dependent upon something other than economic growth.

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This is a reminder for investors that economic growth is not an appropriate ground on which to base an investment decision. The policy in China is to now trade off higher overall growth for slower, more profitable, and therefore more sustainable growth. Instead, investors should think about the specific stock they want to buy.

China is now more integrated than ever into the global supply chain for high-end products both for industrial and consumer customers. There are good quality businesses operating in these areas whose valuations are depressed by the 'China discount', which means there are opportunities for those ready to take a good look.

Edmund Harriss

Manager, Guinness Asian Equity Income Fund

March 2017

Guinness Asian Equity Income Fund

The Fund is designed to provide investors with exposure to high quality dividend-paying companies in the Asia Pacific region. The Fund is managed for income and capital growth and invests in:

- profitable companies…
- that have generated persistently high return on capital over the last eight years…
- and that are well placed to pay a sustainable dividend into the future.

Portfolio

- Concentrated equally-weighted portfolio of 36 stocks, which reduces stock-specific risk and instils a strong sell discipline
- Low turnover
- Minimum $500m market cap
- No benchmark-led limits on sector & regional weightings

Benchmark	MSCI AC Pacific ex Japan Index
Asset class	Equity (long-only)
Geographic focus	Asia Pacific
IA sector	Asia Pacific ex Japan
Fund launch date	19.12.2013
Dividend payments	Half yearly: July (interim) & January (final)
Managers	Edmund Harriss (Manager) Mark Hammonds and Sharukh Malik (Analysts)

Share classes
Accumulating and distributing share classes are available in GBP, USD and EUR.

The Guinness Asian Equity Income Fund is an equity fund. Investors should be willing and able to assume the risks of equity investing. The Fund invests only in stocks of companies that are traded on Asian 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.

Fund managers

Edmund Harriss has managed Asian Funds since 1994 both from London and Hong Kong. He worked for ten years from 1993 for Guinness Flight, which merged with Investec in 1998. He joined the Far East Investment Desk in 1994 as part of the team managing the China & Hong Kong Fund (now the Guinness Atkinson China & Hong Kong Fund, for US investors). In 1998 he moved to Hong Kong and became the Fund's lead manager. Edmund now manages Asia funds and China & Hong Kong funds in a Dublin OEIC for Guinness Asset Management and SEC-registered funds (for US investors) for Guinness Atkinson Asset Management. Edmund graduated from Christ Church, Oxford, with a Master's degree in Management Studies and has a Bachelor's degree in History from the University of York. He is an Associate of the Society of Investment Professionals.

Mark Hammonds joined Guinness Asset Management as an investment analyst in September 2012. Previously he qualified as a Chartered Accountant at Ernst & Young. Mark graduated from Corpus Christi College, Cambridge, in 2007 with a First Class degree in Management Studies.

Sharukh Malik joined Guinness Asset Management as an investment analyst in October 2015. Sharukh graduated from Fitzwilliam College, University of Cambridge, in 2014 with a degree in Economics.

Guinness Asset Management

Guinness Asset Management provides a range of long-only actively managed funds to individual and institutional investors. Founded in 2003, Guinness is independent and is wholly owned by its employees.

We believe in in-house research, intelligent screening for prioritisation of research and well-designed investment processes. We manage concentrated, high conviction portfolios, with low turnover and no benchmark constraints. At heart Guinness is a value investor.

Since our establishment we have developed a variety of specialisms in global growth and dividend funds, global sector funds and Asian regional and country funds.

The Guinness funds sit within an Irish-listed OEIC. They are managed alongside a range of mirror SEC-registered funds offered to US investors by our US sister company, Guinness Atkinson Asset Management Inc.

We also offer Enterprise Investment Schemes investing in UK renewable energy projects and AIM-listed companies.