Guinness Asian Equity Income Fund

INVESTMENT COMMENTARY – May 2017

Launch date	**19.12.13**
Team	**Edmund Harriss** (manager) **Mark Hammonds** (manager) **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

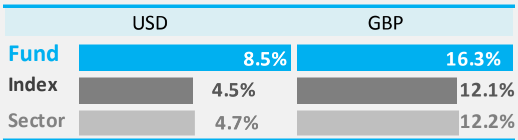
30/04/2017

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

	2014		2015		2016	
	USD	GBP	USD	GBP	USD	GBP
Fund	10.7	17.6	-4.4	1.2	7.5	28.2
Index	1.8	8.1	-9.4	-4.1	7.8	28.6
Sector	3.1	9.5	-8.6	-3.4	5.3	25.7

	YTD		1 year		From launch	
	USD	GBP	USD	GBP	USD	GBP
Fund	13.6	8.5	21.0	37.0	31.4	66.3
Index	14.2	9.1	20.5	36.4	16.1	46.9
Sector	14.9	9.7	18.9	34.7	16.5	47.4

Annualised % total return from launch



Risk analysis (annualised, weekly, from launch)

	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
Alpha	0	0.0	0.6	1.6	4.9	5.7
Beta	1	1.0	0.9	0.9	0.8	0.9
Info ratio	0	0.0	0.0	0.0	0.7	0.7
Max drwdn	-29.1	-26.2	-26.7	-24.5	-24.3	-20.6
Tracking err	0	0.0	4.0	4.0	5.7	5.7
Volatility	15.0	15.8	13.5	14.0	12.7	14.3
Sharpe ratio	0.1	0.5	0.1	0.6	0.4	0.9

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, gross total return.

Early investor share class to close May 2017

The Fund has continued to grow this year and we are happy to report it's currently over $40 million. A warm welcome to any new investors in the Fund. We'd like to announce that the early investor 'Z' share class (OCF 0.74%) will be closing to new investment (other than from registered charities) on 19th May 2017.

Markets

In April, Asian markets, as measured by the MSCI AC Pacific ex Japan Index, rose 1.55%. The Fund lagged slightly in strong markets, rising 1.40% (both figures in USD). For the year to the end of April, the Fund is up 13.6%, compared to the benchmark up 14.2%. Developed markets have trailed, with the MSCI World Index up 8.2% over the same period.

So far in 2017, Asia Pacific equities (including India) have recorded their best year-to-date performance since 2009. Asian equities have continued the strength they witnessed for the most part of 2016, and have surpassed their highs from before the US election.

In the month of April, we saw a big divergence in the performance of individual sectors within Asia. Information Technology stocks were the best performing GICS sector, rising 5.4%. The Fund has a significant weighting to IT, including smartphone component manufacturers, consumer electronics manufacturers and semiconductors. Year-to-date, IT is also the best performing sector, having risen 24.2%.

The weakest sector in April was Materials, which fell 2.6%. Commodities prices were weak during the month, with Brent crude and iron ore both declining. The Fund has no direct exposure to the Materials sector since the companies within it tend not to meet our requirement for persistent returns on capital. Telecom Services was also weak, falling 2.1%.

By country, southeast Asia was strongest during the month, with the Philippines (+5.6%), Malaysia (+3.9%)

and Indonesia (+3.3%) leading the way. The Fund currently has no exposure to these countries, as we have not found sufficiently attractive individual stock opportunities. The focus of the Fund is on bottom-up stock selection within our universe of companies that have achieved persistent returns on capital. Our allocations to individual countries are thus a result of individual stock selections, rather than top-down macro allocations.

Looking at countries where the Fund has exposure, Hong Kong rose 3.1%, China rose 2.7% and Taiwan was up 2.0% over the month. Thailand was flat. The worst performing country in April, and the only country in the region to post a negative return, was Australia, which fell 0.9%. (All MSCI country index returns.)

China's economy in the first quarter was strong, as the GDP figures released in April show. In the first three months, the economy grew at 6.9% in real terms, a result that exceeded analyst expectations. An improvement in private investment and better industrial production both contributed to the strong economic performance. Nominal growth in China was at its highest level since March 2012, with the economy growing at 11.8%. We expected better growth in nominal terms, following the improvement in producer prices observed since the beginning of 2016. China's Producer Price Index (PPI) has risen over this period from around six percent deflation to more than seven percent inflation. This recovery in producer prices, which we have been writing about for some time, caused by improving commodity prices, has started to feed through into nominal growth figures.

However, more recent indicators for China suggest the cyclical rebound may be slowing. PMI readings in April fell, though they still indicate an economy that is in expansionary mode. Growth in the second quarter may not be quite as strong as the first. Along with weaknesses in commodity prices, higher interest rates may also be playing a part. Open market rates have been on the rise, as the authorities have sought to take the heat out of areas of the economy reliant on credit expansion. The ebb and flow of cyclical strength in China's economy further underlines why we do not invest in the region wholesale. We invest in companies that are not directly dependent on industrial growth, as this will suffer periods of weakness from time to time. We look primarily for sustainability of returns.

The overall improvement in economic conditions since the start of the year has started to be reflected in earnings forecasts for the region. For both Asia as a whole and for individual countries, notably Taiwan and Korea, earnings forecasts have been revised upwards as analysts incorporate stronger economic data. Not only have the forecasts moved up; many countries are expected to see double digit growth in earnings for 2017. We know that analysts' forecasts from the start of the year often turn out to be too optimistic and are revised downwards, but we nevertheless find the direction of travel encouraging, combined with the valuation discount that still exists (discussed below).

Portfolio

As with individual sector performance during the month, individual stock performance was dispersed. Our best performer was almost 36 percentage points ahead of the worst performer. This divergence in returns highlights the benefit of maintaining a tight rebalancing discipline over the portfolio. As stock rise, they are trimmed back to neutral weight (2.75%) and laggards are topped up. This process ensures that in markets where individual stocks can move quite dramatically, the portfolio retains the right balance between concentration and diversification.

The best performing stocks during the month were AAC (+25.5%), Luk Fook (+15.1%) and Tisco Financial (+10.6%). AAC Technologies has continued its very strong performance year-to-date, as investors look to the next iPhone upgrade cycle later this year as a source of growth for the company. To the end of April, the stock has returned 61.6% on a total return basis. Luk Fook rallied after signs that underlying retail demand in the markets it serves has improved. Tisco released results for the first quarter that beat expectations. The company has been the beneficiary of a strong auto market in Thailand.

The worst performing stocks during the month were Hanon Systems (–10.4%), China Minsheng (–7.8%) and Qualcomm (–6.3%). All three of these stocks were discussed in last month's update. Since then, we have seen for a deterioration in Qualcomm's relations with Apple, which has instructed its suppliers to suspend payments to Qualcomm. We note that this is not the first time the company has dealt with problems like this; several years ago, Qualcomm reached negotiated agreements with its Chinese customers, who had begun to withhold payments. There are signs that the market has begun to shrug off the most recent developments, and, as we follow our process, we will top up our holding in periods of weakness.

Other stocks that reported results in the month include Yangzijiang, the shipbuilder, which confirmed winning 13 new contracts during the first quarter. These additions will help bolster the company's order book. There are signs of a nascent recovery in the industry taking place this year – shares in Korean shipbuilders have also seen strength over the first part of 2017.

Outlook

Asia remains at a discount to global markets. At the end of the April, on a trailing P/E basis, this discount was 27% – around the same as at the end of November last year, following the US election. However, the risk environment is very different. The outcome of the meeting at the start of April between President Xi and President Trump in Florida was muted, to say the least. Both countries agreed to a 100-day plan to discuss trade, security and other matters. This result is far from the trade war that many people feared towards the end of last year. Trade barriers still remain a risk for Asia, but the anti-China rhetoric from the White House has abated.

China, of course, still faces many challenges as its economy transitions and the financial system reforms. We have seen recent action from policymakers to deflate bubbles emerging in the bond and housing markets. Capacity is being withdrawn from industries where oversupply exists, and industrial companies have gained breathing room as their selling prices and profits have recovered, which in turn has eased the strain on the banking sector. Far more needs to be done in all of these areas, but they are long-term projects – many of the required changes will take place over years.

Given the risks that exist, we believe a portfolio comprised of companies that have generated persistent returns on capital is well positioned. We look for companies that have achieved strong operating results, yet have been overlooked by the market. While we wait for the valuation anomaly to correct, we collect dividend income along the way. We have high conviction in our positions, and maintain our thirty-six stocks at equal weight. In a challenging economic environment, we believe this philosophy is a good one to adopt.

Edmund Harriss & Mark Hammonds
(portfolio managers)
Sharukh Malik (analyst)

Data sources

Fund performance: *Financial Express, gross total return*

Index and stock data: *Bloomberg*

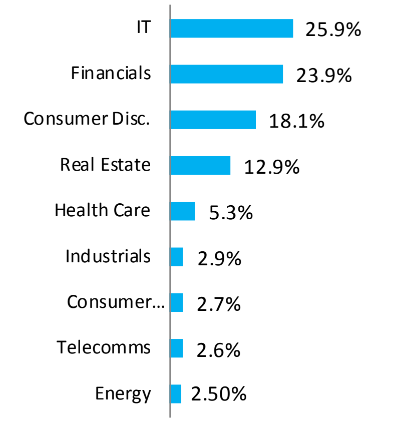
PORTFOLIO

30/04/2017

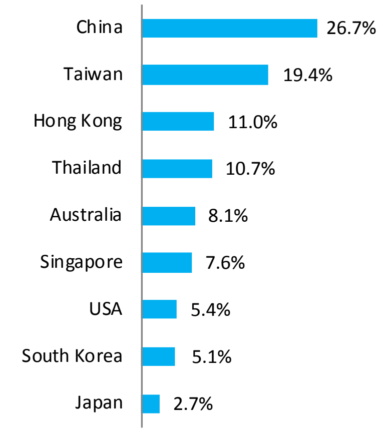
Fund top 10 holdings

AAC Technologies	3.5%
Catcher Technology	3.1%
Tisco Financial Foreign	3.0%
Luk Fook Holdings	3.0%
Largan Precision	2.9%
Yangzijiang Shipbuilding	2.9%
Asustek Computer	2.8%
Delta Electronics	2.8%
Qualcomm	2.8%
Hon Hai Precision Industry	2.8%
% of Fund in top 10	29.5%
Total number of stocks in Fund	36

Sector analysis



Geographic allocation



PERFORMANCE

30/04/2017

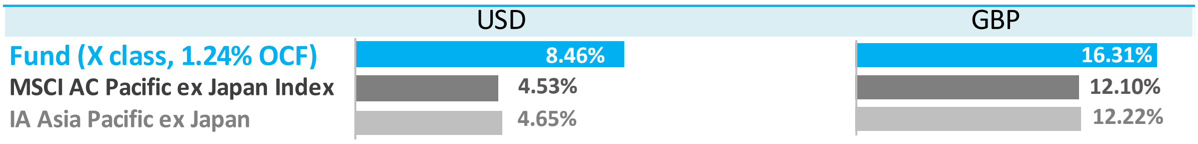
Discrete years % total return

	Apr '13		Apr '14		Apr '15		Apr '16		Apr '17	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Fund (X class, 1.24% OCF)	-	-	-	-	23.1	35.2	-14.4	-10.2	21.0	37.0
MSCI AC Pacific ex Japan Index	13.5	18.4	1.2	-6.8	11.5	22.5	-16.9	-12.8	20.5	36.4
IA Asia Pacific ex Japan	12.1	16.9	1.1	-6.8	10.0	20.9	-14.6	-10.4	18.9	34.7

Cumulative % total return

	1 month		Year-to-date		1 year		3 years		From launch	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Fund (X class, 1.24% OCF)	1.4	-2.0	13.6	8.5	21.0	37.0	27.4	66.2	31.4	66.3
MSCI AC Pacific ex Japan Index	1.6	-1.9	14.2	9.1	20.5	36.4	11.6	45.6	16.1	46.9
IA Asia Pacific ex Japan	1.7	-1.7	14.9	9.7	18.9	34.7	11.7	45.8	16.5	47.4

Annualised % total return from launch



Risk analysis - Annualised, weekly, from launch on 19.12.2013

30/04/2017	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
Alpha	0.0	0.0	0.6	1.6	4.9	5.7
Beta	1.0	1.0	0.9	0.9	0.8	0.9
Information ratio	0.0	0.0	0.0	0.0	0.7	0.7
Maximum drawdown	-29.1	-26.2	-26.7	-24.5	-24.3	-20.6
R squared	1.0	1.0	0.9	0.9	0.9	0.9
Sharpe ratio	0.1	0.5	0.1	0.6	0.4	0.9
Tracking error	0.0	0.0	4.0	4.0	5.7	5.7
Volatility	15.0	15.8	13.5	14.0	12.7	14.3

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Source: Financial Express, bid to bid, gross 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.**

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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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