

# Guinness Asian Equity Income Fund

INVESTMENT COMMENTARY – September 2017

<b>Launch date</b>	<b>19.12.13</b>					
<b>Team</b>	<b>Edmund Harriss</b> (manager) <b>Mark Hammonds</b> (manager) <b>Sharukh Malik</b> (analyst)					
<b>Aim</b>	<p>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.</p>					
<b>Performance</b>	31/08/2017					
<b>Fund</b>	Guinness Asian Equity Income (X)					
<b>Index</b>	MSCI AC Pacific ex Japan Index					
<b>Sector</b>	IA Asia Pacific ex Japan					
	<b>2014</b>		<b>2015</b>		<b>2016</b>	
	USD	GBP	USD	GBP	USD	GBP
<b>Fund</b>	10.7	17.6	-4.4	1.2	7.5	28.2
<b>Index</b>	1.8	8.1	-9.4	-4.1	7.8	28.6
<b>Sector</b>	3.1	9.5	-8.6	-3.4	5.3	25.7
	<b>YTD</b>		<b>1 year</b>		<b>From launch</b>	
	USD	GBP	USD	GBP	USD	GBP
<b>Fund</b>	28.9	23.6	23.5	25.6	49.1	89.4
<b>Index</b>	27.5	22.3	24.1	26.1	29.6	64.6
<b>Sector</b>	26.6	21.4	21.3	23.3	28.4	63.1
<b>Annualised % total return from launch</b>	USD		GBP			
<b>Fund</b>	<b>11.4%</b>		<b>18.8%</b>			
<b>Index</b>	7.3%		14.4%			
<b>Sector</b>	7.0%		14.1%			
<b>Risk analysis</b> (annualised, weekly, from launch)	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
<b>Alpha</b>	0	0.0	0.7	1.6	5.4	6.0
<b>Beta</b>	1	1.0	0.9	0.9	0.8	0.9
<b>Info ratio</b>	0	0.0	0.0	0.0	0.7	0.7
<b>Max drwn</b>	-29.1	-26.2	-26.7	-24.5	-24.3	-20.6
<b>Tracking err</b>	0	0.0	3.9	3.9	5.6	5.6
<b>Volatility</b>	14.6	15.4	13.1	13.7	12.4	14.1
<b>Sharpe ratio</b>	0.3	0.7	0.3	0.8	0.6	1.1
<p><b>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.</b></p> <p>Source: Financial Express, bid to bid, gross total return.</p>						

## Fund & Market

- The Fund performed strongly in August and was ahead of the MSCI AC Pacific ex Japan Index by 3.1%/3.1% in GBP/EUR terms.
- Thailand was up 7%/4% in GBP/EUR terms (as measured by the MSCI country index) and led the region higher along with China, Hong Kong and Taiwan. South Korea and Southeast Asia were notably weaker. Among the sectors, Materials, Energy and Consumer Staples were strongest. Although the Fund has minimal exposure to these, its performance was unimpeded.
- Market forecasts for company profits were 1% higher in August and have been revised upwards by 3% since June. The biggest earnings upgrades in the region have been seen in China, while India has seen profit expectations downgraded by 3%. From a sector perspective, analysts appear to be turning significantly more positive on Energy, Real Estate and Materials.

## Events in August

- North Korea dominated the headlines with the imposition of sanctions by the United Nations followed by the US placing its own sanctions on certain Chinese firms for aiding North Korea.
- Samsung Group's *de facto* boss was sentenced to five years imprisonment for bribery of ex-President Park, as the political scandal of last year rumbled on.
- The Chinese renminbi strengthened 2% against the US dollar and is 5% stronger than at the beginning of the year. We believe these moves have been driven by a combination of improving domestic conditions in China, US dollar weakness, and slower capital outflows as Chinese companies express a lesser desire to hold dollars.

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## Overview

- We believe earnings growth will continue to be a significant driver of Asian stock markets.
- China's economic growth may decelerate in coming months, consistent with efforts to reduce leverage in the financial system and excess capacity in heavy industry.
- The evidence so far suggests that China is achieving these policy aims in an orderly fashion.
- The risks facing Asian markets include a resurgence in inflation, policy missteps in China or renewed talk of trade restrictions by the US administration.
- North Korea remains a wildcard.

## Discussion

The Fund's performance in August was stronger than we would normally expect. We therefore undertook a review to see if that performance was driven by sector or thematic concentrations. We aim to keep such concentrations to a minimum. The common theme we identified was that a number of companies reported better results during the interim reporting season. The companies themselves, however, came from a wide range of sectors and countries. We briefly discuss some of them below.

*Stock performances are all reported in US dollar terms*

- **AAC Technologies** has completely shaken off the short seller's report that caused the stock to be suspended at HK\$82. Steady profits growth, coupled with upbeat assessments of technology improvements (in lenses, acoustics) and moves into new product areas (Android and Chinese makers), pushed the stock to close at HK\$142.
- **Li & Fung**, a perennial underperformer, turned following an unexpected 11% growth in operating profits. The company's stated efforts to focus on efficiency and cost control are visibly bearing fruit. The longer-term future depends on its ability to deliver supply chain management services – such as improving the speed of pre-order processes (Plan, Source, Design, Cost) from 17 weeks down to 3 weeks, and cutting the whole process from pre-order to production and shipping down from 40 weeks to 13 weeks. The stock rose 23% in the month, making it our second-best performer.
- **China Lilang**, a retailer of men's clothing, was up 21% after results showed a pick-up in orders, higher prices and progress in re-organizing their business following the decision to close L2, their lower-end sub-brand.
- **St Shine Optical**, a maker of contact lenses, rose 15% during the month, following its results report. Reported first-half profit in 2017 was below expectation, but the outlook is much stronger, both for its Japanese customers' demand for contact lenses and a new product launch (colour contact lenses). The completion of new capacity additions later this year, on schedule, will also remove a bottleneck.
- **China Merchants Bank** was up 15% on strong results and bright expectations for its private banking and retail banking model. The focus on retail over corporate business diffuses risks and its adoption of financial technology (such as retail mobile banking apps) allows it to extend reach while controlling costs.

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## Guinness Asian Equity Income Fund

This bank is the most aggressive of the Chinese banks in adopting innovative banking processes into its model.

- **Relo Holdings**, a relocation agency for Japanese executives, was up 13%. First quarter operating profit was up 12% and the outlook remains favourable. This stock has performed very well since purchase (2014 +44%, 2015 +69%, 2016 +18%, 2017 YTD +60%) and is a story of low (1%) yield and steady dividend growth over 14 years. It has broadened beyond domestic relocation to include international Japanese executive relocation and HR services.
- **Hanon Systems** was up 12.5%. This automotive climate control business develops and sells systems for controlling the temperature environment in combustion engines and in electric vehicles. The stock has had a weak year but the price turned higher in May. Results reported in August were expected to be poor because of a collapse in Korean car sales in China. The reality was that internal cost restructuring and an improved product mix offset China weakness, and results were better than expected. The order book looks strong, beyond Hyundai & Ford, with high visibility. A regulatory drive in Europe to promote electric vehicles and a quarterly dividend (payout ratio 60%) are also supportive.
- **Catcher Technology**, a manufacturer of smartphone casings, rose 11% after operating margin of 38.1% beat expectations again. Increasing sales momentum is coming through. Higher shipments are expected in the second half for the iPhone and these are becoming visible.

Not every stock in the portfolio rose during the month. JB Hi-Fi, an electrical retailer in Australia, fell 9% on concerns surrounding the imminent arrival of Amazon into the Australian market. Pacific Textiles fell back 7%, but the recent resolution of a factory dispute in Vietnam and the arrival of Toray (the supply chain manager and close partner of key customer Uniqlo) as the largest shareholder look very promising. LPN Development in Thailand was down 5% after reporting weaker results for the second quarter on lower apartment sales. In recent weeks, however, conditions have improved into the third quarter. AsusTek Computer also fell 5% as the market adjusted expectations for next couple of years. The business is re-organising its business lines into PC, Gaming and Smartphone to bring about faster innovation and cost efficiency. In the meantime, we expect to see slower business momentum, but management has committed to maintaining the dividend for the next two years.

## Outlook

We remain positive on Asian growth and earnings prospects, with all sectors expected to see earnings-per-share growth. Reported earnings have been ahead of expectations overall. This leaves valuations of MSCI AC Pacific ex Japan companies still looking attractive, with a price/earnings (P/E) multiple of 14.3 times estimated 2017 earnings and 13.1 times 2018 estimates. The Fund's P/E multiple is at a 7% discount to the market for similar earnings growth (9% in 2018 versus 2017).

### Edmund Harriss & Mark Hammonds

(portfolio managers)

Sharukh Malik (analyst)

#### Data sources

Fund performance: *Financial Express, gross total return*

Index and stock data: *Bloomberg*

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## Guinness Asian Equity Income Fund

PORTFOLIO

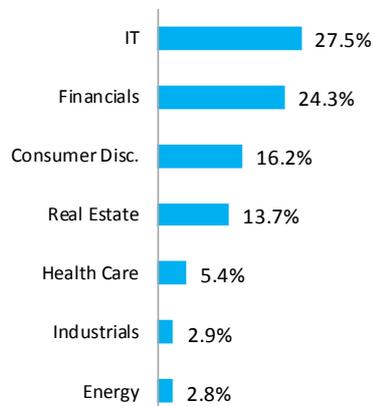
31/08/2017

### Fund top 10 holdings

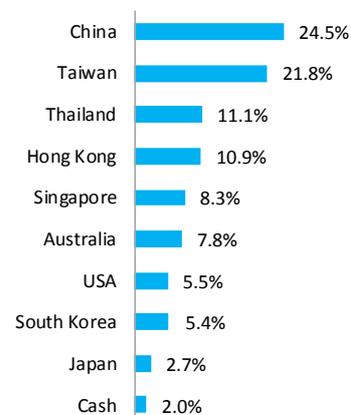
Yangzijiang Shipbuilding	2.9%
Novatek Microelectronics	2.9%
Delta Electronics	2.9%
Li & Fung	2.9%
China Lilang	2.8%
China Merchants Bank	2.8%
Asustek Computer	2.8%
Capitamall Trust	2.8%
Tisco Financial Foreign	2.8%
AAC Technologies	2.8%

% of Fund in top 10                    28.3%  
 Total number of stocks in Fund    36

### Sector analysis



### Geographic allocation



## PERFORMANCE

31/08/2017

### Discrete years % total return

	Aug '13		Aug '14		Aug '15		Aug '16		Aug '17	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Fund (X class, 1.24% OCF)	-	-	-	-	-6.4	1.1	13.0	32.7	23.5	25.6
MSCI AC Pacific ex Japan Index	8.4	11.3	19.5	11.3	-19.4	-13.0	14.1	34.0	24.1	26.1
IA Asia Pacific ex Japan	6.4	9.3	20.9	12.6	-16.9	-10.3	12.3	31.8	21.3	23.3

### 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)	4.3	6.7	28.9	23.6	23.5	25.6	30.7	68.5	49.1	89.4
MSCI AC Pacific ex Japan Index	1.2	3.6	27.5	22.3	24.1	26.1	14.2	47.2	29.6	64.6
IA Asia Pacific ex Japan	0.6	2.9	26.6	21.4	21.3	23.3	13.2	46.0	28.4	63.1

### Annualised % total return from launch

	USD		GBP	
<b>Fund (X class, 1.24% OCF)</b>	<b>11.40%</b>		<b>18.83%</b>	
MSCI AC Pacific ex Japan Index	7.25%		14.41%	
IA Asia Pacific ex Japan	6.99%		14.12%	

### Risk analysis - Annualised, weekly, from launch on 19.12.2013

31/08/2017	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
Alpha	0.0	0.0	0.7	1.6	5.4	6.0
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	0.3	0.7	0.3	0.8	0.6	1.1
Tracking error	0.0	0.0	3.9	3.9	5.6	5.6
Volatility	14.6	15.4	13.1	13.7	12.4	14.1

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Source: Financial Express, bid to bid, gross total return. Fund launch date: 19.12.2013.

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## 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](http://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](http://www.carnegie-fund-services.ch). The paying agent is Banque Cantonale de Genève, 17 Quai de l'Île, 1204 Geneva, Switzerland.

### Singapore

The Fund is not authorised or recognised by the Monetary Authority of Singapore ("MAS") and shares are not allowed to be offered to the retail public. The Fund is registered with the MAS as a Restricted Foreign Scheme. Shares of the Fund may only be offered to institutional and accredited investors (as defined in the Securities and Futures Act (Cap.289)) ('SFA') and this material is limited to the investors in those categories

**Telephone calls** may be recorded and monitored.

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## Guinness Asian Equity Income Fund

**GUINNESS**

**ASSET MANAGEMENT LTD**

Guinness Asset Management Ltd is authorised and regulated by the Financial Conduct Authority

**Tel: +44 (0) 20 7222 5703**

**Email: [info@guinnessfunds.com](mailto:info@guinnessfunds.com)**

**Web: [guinnessfunds.com](http://guinnessfunds.com)**