Managers	Funds
 **Edmund Harriss** (manager)	**Guinness Asian Equity Income Fund** Invests in Asian companies with persistently high return on capital, that are well placed to pay a sustainable dividend into the future.
 **Mark Hammonds** (manager)	**Guinness Best of China Fund** Invests in companies benefiting from exposure to economic expansion and demographic trends in China and Taiwan.
 **Sharukh Malik** (analyst)	**Guinness Emerging Markets Equity Income Fund** Invests in dividend paying companies in Emerging Markets world-wide.

Asian markets retreat – 6th December 2017

After such a strong run this year is stock markets around the world, investors are concerned that something nasty is about to happen. Unless there is a strong view about the dollar, interest rates or a global price shock then the question comes down to valuation. Have markets become too expensive and therefore should we retreat a little before year end?

To me, this looks like a broader move in sentiment to cut back on positions that have done well, i.e. a question of valuation and profit-taking. This does not appear to be because of any fundamental change to market earnings or economic conditions.

We think that Asian markets never got expensive. Valuations have come up from multi-year lows (which also depresses the 10-year average, making that comparison lower than it might otherwise be) and are supported by strong earnings growth forecasts which in turn are supported by strong profit growth already reported.

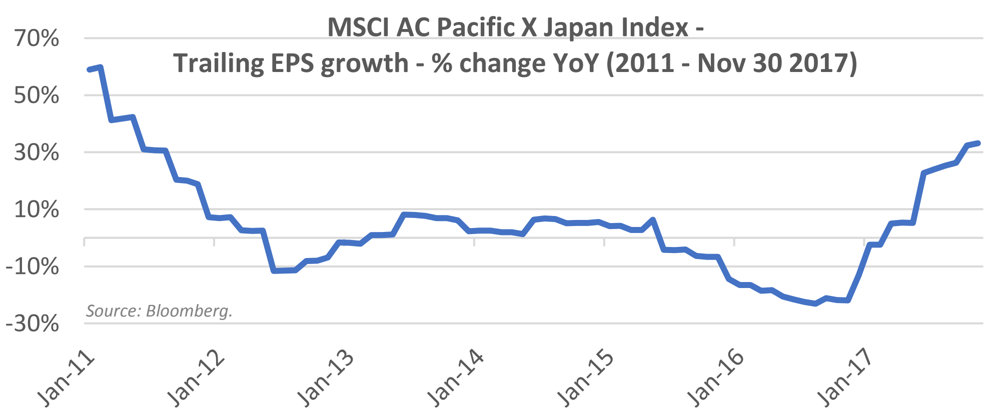
What follows is a quick review of what I think is relevant:

Markets:

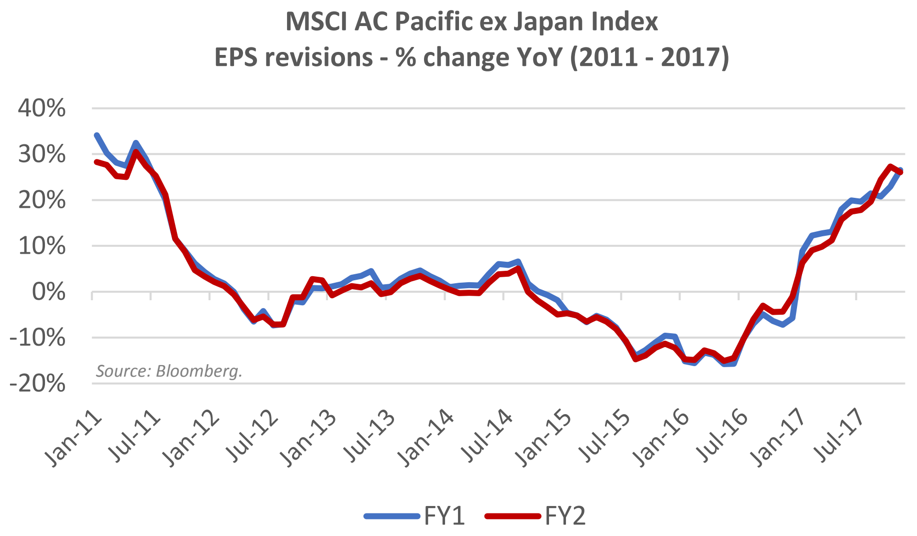
1. The stocks selling off today 4% or more in our portfolios include Catcher, Largan, AAC Tec (smartphones), Ping An (Chinese insurance), Geely Auto (Chinese car maker), St Shine Optical (Taiwan Healthcare), Haitian (Chinese machinery maker), Anhui Conch Cement (Chinese cement maker). Those selling down 2%-3%: Hanon System (Korea Autoparts), Chinese banks, Delta Electronics Thailand (power systems for Tech hardware).

   This is a broad range of sectors with no common theme running through other than they are in markets (China) or sectors (Technology) or are stock specific which have all done well this year up 50% or more.

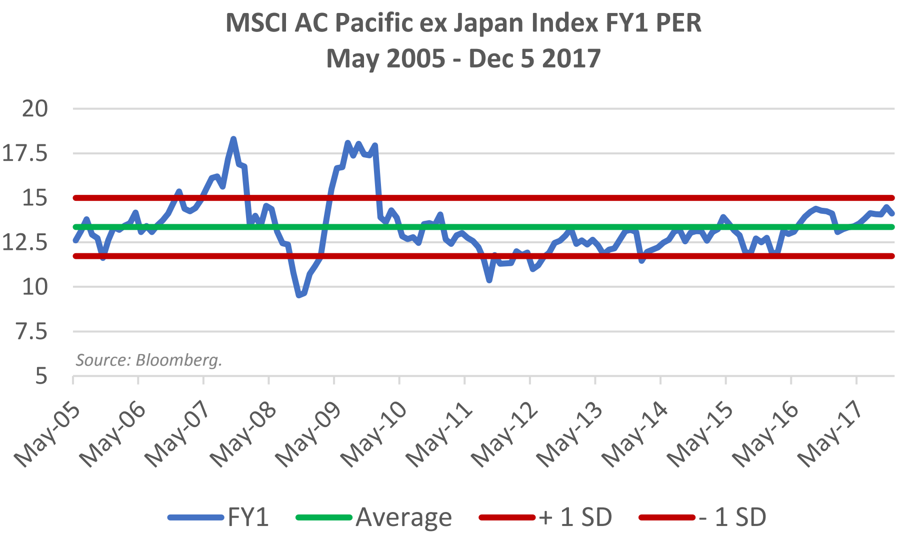
2. Reported earnings growth in Asia is still accelerating



3. Forecast earnings growth in Asia is also rising strongly – the dip in the red line is a data distortion in Sept/Oct, corrected in November, relating to Samsung Electronics. Take out that 2 month data error and revisions for both this year and next are still accelerating.



4. The market PE valuation has been rising since the latter part of 2016. It never got expensive compared to its 10 year average and recent weakness is pulling it back toward average.



Macro view:

1. At the high level, there are no concerns being expressed about GDP growth. China is expected to slow down from 6.8% toward 6.5% as financial sector reforms continue and deleveraging progresses. The markets appear comfortable with this and we have seen no surprises in retail, industrial output, investment or inflation data.

2. At a sector level, the concern has been raised that the cycle has peaked and that higher component prices mean that either demand will reduce or that prices must fall. Some analysts are forecasting that 1Q18 will the peak in iPhone sales growth although the volumes are still likely to remain high.

3. Some analysts have also warned that car sales growth in China will lose momentum in coming months. Guangzhou Auto (not held) reported weaker sales today and some investors are reading across. But this company produces and sells Honda cars and unless investors were already nervous the impact of this news would normally be slight.

4. Looking across the economies of Korea, Taiwan, Singapore, Thailand, Australia we see no changes to conditions from 6 months ago. The outlook for US interest rates has not changed and neither has the outlook for the dollar vs regional currencies.

Our view in sum:

After such a strong run this year is stock markets around the world, investors are concerned that something nasty is about to happen. Unless there is a strong view about the dollar, interest rates or a global price shock then the question comes down to valuation. Have markets become too expensive and therefore should we retreat a little before year end?

We think that Asian markets never got expensive. Valuations have come up from multi-year lows (which also depresses the 10-year average, making that comparison lower than it might otherwise be) and are supported by strong earnings growth forecasts which in turn are supported by strong profit growth already reported.

On that basis, market weakness looks like a buying opportunity and in the face of weak sentiment we shall be rebalancing our stock positions into that weakness.

Edmund Harriss
Manager, Guinness Asian Equity Income Fund

December 2017

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.