

# Guinness Asian Equity Income Fund

INVESTMENT COMMENTARY – June 2018

<b>Launch date</b>	19.12.13					
<b>Team</b>	Edmund Harriss (manager) Mark Hammonds (manager) Sharukh Malik (analyst)					
<b>Aim</b>	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.					
<b>Performance</b>	31/05/2018					
<b>Fund</b>	Guinness Asian Equity Income (Y)					
<b>Index</b>	MSCI AC Pacific ex Japan Index					
<b>Sector</b>	IA Asia Pacific ex Japan					
	2015		2016		2017	
	USD	GBP	USD	GBP	USD	GBP
<b>Fund</b>	-4.4	1.2	7.5	28.2	36.5	24.6
<b>Index</b>	-9.4	-4.1	7.8	28.6	37.3	25.4
<b>Sector</b>	-8.6	-3.4	5.3	25.7	37.2	25.3
	YTD		1 year		From launch	
	USD	GBP	USD	GBP	USD	GBP
<b>Fund</b>	-3.2	-1.6	12.8	9.4	52.9	87.9
<b>Index</b>	0.2	1.9	17.2	13.7	39.8	71.9
<b>Sector</b>	-0.7	1.0	14.8	11.4	38.3	70.0
<b>Annualised % total return from launch</b>	USD		GBP			
<b>Fund</b>	10.0%		15.2%			
<b>Index</b>	7.8%		13.0%			
<b>Sector</b>	7.6%		12.7%			
<b>Risk analysis</b> (annualised, weekly, from launch)	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
<b>Alpha</b>	0	0.0	0.6	1.3	3.8	4.1
<b>Beta</b>	1	1.0	0.9	0.9	0.8	0.8
<b>Info ratio</b>	0	0.0	-0.1	-0.1	0.4	0.4
<b>Max drwn</b>	-29.1	-26.2	-26.7	-24.5	-24.3	-20.6
<b>Tracking err</b>	0	0.0	3.8	3.8	5.8	5.8
<b>Volatility</b>	14.7	15.2	13.2	13.5	12.4	13.9
<b>Sharpe ratio</b>	0.3	0.6	0.3	0.7	0.6	0.9
<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>						
Source: Financial Express, Y class 0.99%, bid to bid, gross total return.						

## Fund & Market

- The Fund rose in May (in GBP) but ended the month a little behind the benchmark.
- At the end of May the Fund was down for the year, but in June we have seen a recovery in both absolute and relative performance.
- Weakness in Technology hardware, banks across the region and in Consumer Discretionary names has been behind the relatively lacklustre performance this year. Market attention has been focused on Energy, Materials and Real Estate, sectors to which the Fund has lower exposure.
- Moderate downgrades to profit forecasts have been evident in Consumer Discretionary in China, Korea, Taiwan and Indonesia; in banks in China, Indonesia and Thailand (and India); and in Technology hardware in both China and Taiwan. By contrast, upgrades to forecasts have been made in Hong Kong and China Real Estate, China and Taiwan Materials. Upgrades to Energy names appear to have levelled off.
- The stock prices of many of our holdings had already priced in many of these moves back in March and April. The businesses we are invested in have seen their earnings downgraded less but sentiment has weighed heavy on their share prices nonetheless.
- We have been pleased to see a change in market sentiment in early June, with outperformance from Largan, Elite Material, Novatek, Hon Hai and Qualcomm in Tech; Hanon, Lilang, Corporate Travel in Consumer Discretionary; St Shine Optical & Sonic Healthcare in Health Care; The Link REIT in Real Estate; China Mobile in Telecom; Yangzijiang in Industrials; and China Construction Bank, Tisco in Thailand, Public Bank in Malaysia in Financials.

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## Events in May

- Trade tensions between the US and China rumble on with a trade war variously on, off, maybe back on, but perhaps not.
  - 19<sup>th</sup> May: both sides agreed to take effective measures to reduce the trade imbalance; China committed to increase significantly its purchase of US goods.
  - 29<sup>th</sup> May: the US stated it would publish a list of Chinese goods worth \$50bn to be subject to tariffs of 25% on 15<sup>th</sup> June.
- The US summit with North Korea was on, then off, and then back on (and in the end did happen).
- The ruling party (UMNO) in Malaysia was defeated in a general election for the first time since independence by Dr Mahathir Mohammed, a former prime minister who used to lead UMNO but left after he fell out with the new leadership. The change therefore, is not profound.
- Instability in Italy raised fears for the future of the Eurozone.
- Indonesia raised interest rates twice in response to currency weakness.

## Outlook

- Political noise around trade with China is high, but action taken so far has been limited. We still believe a negotiated outcome is the desire of both parties.
- The outlook for the businesses in the portfolio is still bright. The second half of 2018 should see an upswing in Technology hardware names with channel checks pointing to good order flow. With valuations still well off their highs, we see opportunity.
- The portfolio is trading at a 6% discount to the broad market and earnings are forecast grow c.10% in each of 2018 and 2019.

## Asia and Emerging Markets

There has been some nervousness surrounding Asian investing this year as dollar strength, rising treasury yields and higher oil prices have come into the picture. However, Asia has remained resilient, underperforming Developed Markets by only around one per cent this year. The problems that have come to light this year are well known – in Argentina, Brazil, Russia, South Africa and Turkey – but we see them as related to issues specific to those countries.

From a purely top-down perspective we are picking up the following:

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### 1. China's domestic bond market

Last year China established the Bond Connect scheme to allow overseas investors to gain direct access to China's \$5 trillion domestic bond market. Roughly 300 institutions have registered with the scheme since July 2017. Chinese bonds are due to be included into the Barclays Global Aggregate by April 2019 so long as the market meets certain liquidity criteria especially in the secondary market. Goldman Sachs reports that around \$150 billion of foreign money is now invested and this could reach almost \$1 trillion over the next five years. For now, this remains a new asset class but inclusion in Barclays Aggregate and the other major bond indices could have a significant impact both on China's capital markets and more broadly for Emerging Markets if this were to draw flows away from other countries.

### 2. Indonesia

This is one market in Asia that has been feeling the heat from the stronger dollar and rising core bond market yields. Among Emerging Markets, Indonesia has been a favourite destination for those in search of yield. Government bonds were yielding 5-6% at a time when US Treasuries were below 2.5%. Indonesia's domestic financial position has improved in recent years, earning it an investment grade sovereign rating of BBB- (under Standard and Poor's system). Just as money flowed in over the past two years, therefore, so it has flowed out in recent months. The currency has been one of the weaker performers this year but flows and the currency have been steadied by two 0.25% increases in interest rates, the second being unexpected, to contain rupiah weakness. Investors have been encouraged to see the Central Bank working proactively, rather than using foreign exchange reserves to defend the currency.

### 3. Oil

The current oil price (WTI \$66, Brent \$75) is leading to pressure in some countries for caps or subsidies. Malaysia has said it will subsidise above current levels, while Thailand has already committed to subsidies for both transport and cooking fuels. India looks more vulnerable than most, with rising oil prices affecting both fiscal and current account deficits, and this has been reflected through currency weakness. We do not believe higher oil represents a significant threat to Asia because with the exceptions of Indonesia (itself an oil producer and so a beneficiary), India and the Philippines, national finances are strong. But sharp moves are difficult to absorb and so we must expect possibly slower growth in those subsidy markets.

### 4. Chinese Yuan

This does not appear to be a concern one way or the other, which is news in itself. The currency seems to be moving in a range whose extremes are CNY6.25 – 6.70 to US\$1. The currency strengthened from RMB6.50 at the start of the year to a high of RMB6.26 and has since settled back to RMB6.40. On a trade-weighted basis this amounts to 3% weakening, which can be seen in the context a strengthening in the trade-weighted dollar of 2.8%.

### 5. Technology hardware

The hardware segment of the Information Technology sector has had a difficult time this year and this has been felt most keenly in Asia, where the majority of manufacturing takes place. The issue has mostly affected smartphone area. Apple sales have not been as strong as hoped, while in China, both ZTE and Huawei have been caught up in Sino-US trade matters. At the same time, Chinese smartphone makers have had more inventory to

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clear. However, in recent weeks it has become apparent that concerns have been overdone. Channel checks amongst screen makers, chip drivers and lens makers show capacity is being ramped up and being taken up in line with management's expectations. Both Largon Precision and Catcher Technology have been beneficiaries in the portfolio.

## Summary and conclusion

The portfolio is trading, on a price/earnings multiple basis, at a 6% discount to the market as measured by the MSCI AC Pacific ex Japan Index. The index is in turn trading at a 14% discount to Developed Markets.

The fundamental outlook for the region's economies and earnings remains good. Political noise will create an overhang, especially with respect to trade. It remains far from clear precisely what President Trump wants, but based on actions taken so far we can see that discussions are ongoing and we think there is a willingness to reach an accommodation.

**Edmund Harriss** and **Mark Hammonds** (portfolio managers)

**Sharukh Malik** (analyst)

### Data sources

Fund performance: *Financial Express, gross total return*

Index and stock data: *Bloomberg*

## Guinness Asian Equity Income Fund

### PORTFOLIO

31/05/2018

Fund top 10 holdings	Sector analysis	Geographic allocation
Largan Precision 3.4%	IT 28.1%	China 23.9%
China Lilang 3.2%	Financials 26.4%	Taiwan 22.6%
AAC Technologies 3.0%	Consumer Disc. 18.7%	Australia 11.0%
Corporate Travel Manage 2.9%	Real Estate 8.7%	Hong Kong 10.5%
Luk Fook Holdings 2.9%	Health Care 5.4%	Thailand 8.3%
Qualcomm 2.9%	Energy 2.7%	Singapore 8.1%
Novatek Microelectronics 2.9%	Telecoms. 2.6%	USA 5.5%
China Minsheng Banking 2.8%	Consumer... 2.5%	South Korea 5.1%
Link REIT 2.8%	Industrials 2.2%	Malaysia 2.6%
Capitamall Trust 2.8%	Cash 2.5%	Cash 2.5%
% of Fund in top 10 29.5%		
Total number of stocks 37		

### PERFORMANCE

31/05/2018

Discrete years % total return	May '14		May '15		May '16		May '17		May '18	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Fund (Y class, 0.99% OCF)	-	-	-	-	-13.4	-9.2	24.7	40.6	12.8	9.4
MSCI AC Pacific ex Japan Index	8.7	-1.7	5.2	15.6	-15.9	-11.8	26.1	42.2	17.2	13.7
IA Asia Pacific ex Japan	6.8	-3.5	5.2	15.7	-14.6	-10.5	24.8	40.7	14.8	11.4

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 (Y class, 0.99% OCF)	-1.1	2.4	-3.2	-1.6	12.8	9.4	21.8	39.6	52.9	87.9
MSCI AC Pacific ex Japan Index	-0.6	2.9	0.2	1.9	17.2	13.7	24.3	42.5	39.8	71.9
IA Asia Pacific ex Japan	-0.7	2.8	-0.7	1.0	14.8	11.4	22.3	40.3	38.3	70.0

### Annualised % total return from launch

	USD	GBP
<b>Fund (Y class, 0.99% OCF)</b>	<b>10.02%</b>	<b>15.24%</b>
MSCI AC Pacific ex Japan Index	7.82%	12.95%
IA Asia Pacific ex Japan	7.55%	12.67%

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

31/05/2018	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
Alpha	0.0	0.0	0.6	1.3	3.8	4.1
Beta	1.0	1.0	0.9	0.9	0.8	0.8
Information ratio	0.0	0.0	-0.1	-0.1	0.4	0.4
Maximum drawdown	-29.1	-26.2	-26.7	-24.5	-24.3	-20.6
R squared	1.0	1.0	0.9	1.0	0.9	0.9
Sharpe ratio	0.3	0.6	0.3	0.7	0.6	0.9
Tracking error	0.0	0.0	3.8	3.8	5.8	5.8
Volatility	14.7	15.2	13.2	13.5	12.4	13.9

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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: Link Fund Manager Solutions (Ireland) Ltd, 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** will be recorded and monitored.

**GUINNESS**

ASSET MANAGEMENT

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

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