

# Guinness Asian Equity Income Fund

INVESTMENT COMMENTARY – August 2018

**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** 31/07/2018

**Fund** Guinness Asian Equity Income (Y)  
**Index** MSCI AC Pacific ex Japan Index  
**Sector** 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	-0.2	6.8	7.4	52.9	90.6
<b>Index</b>	-3.3	-0.3	5.3	5.9	33.4	66.4
<b>Sector</b>	-4.1	-1.1	4.5	5.1	33.5	66.5

## Annualised % total return from launch

	USD		GBP	
<b>Fund</b>	9.6%		15.0%	
<b>Index</b>	6.4%		11.7%	
<b>Sector</b>	6.5%		11.7%	

## Risk analysis (annualised, weekly, from launch)

	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
<b>Alpha</b>	0	0.0	0.6	1.6	4.1	4.7
<b>Beta</b>	1	1.0	0.9	0.9	0.8	0.9
<b>Info ratio</b>	0	0.0	-0.1	0.0	0.5	0.5
<b>Max drwn</b>	-29.1	-26.4	-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>	14.6	15.1	13.1	13.4	12.5	13.9
<b>Sharpe ratio</b>	0.2	0.6	0.2	0.6	0.5	0.8

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, Y class 0.99%, bid to bid, total return.

## Fund & Market

- Asian markets recovered in July after a difficult month in June. The MSCI AC Pacific ex Japan Index rose 1.3% in GBP terms.
- The fund outperformed by a wide margin, rising 4.4%.
- The outperformance in the month was sufficient for the fund to catch up its underperformance in the first six months. At the end of July, the fund outperformed the benchmark by 0.1% over 2018.
- Our holdings in Information Technology were the principal driver of outperformance, but our Real Estate and Health Care holdings also contributed. Our Consumer Discretionary holdings were detractors.
- Within our IT holdings, several stocks performed well: Largan Precision, Delta Electronics (Thailand), Qualcomm, Novatek, Elite Material and Catcher Technology all contributed to outperformance. The fund also benefited on a relative basis from not holding Tencent (which does not pay a substantial dividend).
- The recovery in IT stocks reverses some of the underperformance the sector experienced in April. Expectations of stronger demand for smartphones in the second half and the low starting valuations that the stocks were trading on, both helped to drive the recovery in share prices.
- Other stocks that performed well include China Merchants Bank, Link REIT and Aflac (see company results, below).
- Weaker stocks were China Lilang (the worst performer over the month, but still the best performer in the fund this year), Luk Fook, and AAC Technologies, which failed to bounce with the other smartphone component suppliers.
- Many of the companies in the portfolio have reported earnings recently and we review these in this update.

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## Events in July

- US tariffs on \$34bn of Chinese goods came into effect, at a rate of 25%.
- The Office of the US Trade Representative (USTR) released a list of products covering a further \$200bn of Chinese imports for which a 10% tariff is proposed.
- President Trump sparked controversy at a summit with Vladimir Putin in Helsinki by failing to condemn Russia's alleged influence over the 2016 US election.
- Meanwhile, at a meeting with European leaders, China offered conciliatory comments to the US, reinforcing its support for preserving a 'global trading system'.
- Later in the month, President Trump and President of the European Commission Jean-Claude Juncker held talks on trade in Washington. Markets reacted optimistically after an agreement not to impose further tariffs was reached.
- The Chinese yuan continued to weaken over the month, falling 2.8% against the dollar.

## Outlook

- Asian and Emerging Markets still offer attractive earnings growth compared to Developed Markets, while trading at reasonable valuations.
- Over the course of this year, the performance of Developed and Emerging markets has diverged as concerns over trade have weighed more heavily on the latter.
- We think that this makes the opportunity in Asia more attractive – lower valuations imply a higher likelihood of better future returns for investors.
- In a time of uncertainty, we think that holding quality companies that have achieved consistently higher return on capital is a sensible approach.

## Asian markets

July saw the continuation of a trend we have experienced for most of the year, as fears over trade wars featured in the news on an almost daily basis. The defusing of tensions between the US and the EU following President Trump's meeting with Jean-Claude Juncker in Washington offered some hope, but the optimism has not yet extended to an improvement in relations between the US and China. Worse, threats have escalated recently as President Trump proposed increasing the rate of tariffs applied from 10% to 25% on \$200bn of Chinese imports. China responded with a smaller but still significant amount in retaliation. Both sides continue to hold talks, but resolution – which we still fully expect to come from a negotiated agreement – still seems some way away.

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Despite the uncertainty, Asian markets overall recovered somewhat in the month. China, however, was weaker. Despite the significant allocation the fund has to China, it nevertheless outperformed; our technology holdings recovered, and individual stock-specific news also drove performance.

As a reminder, the Guinness Asian Equity Income Fund is unlike many other Asian funds in that we don't use a top-down or macroeconomic view to guide how the portfolio is allocated. Instead, the portfolio is assembled from analysis at the company level. We select the best 36 opportunities from our universe of approximately 300 companies and hold them in a concentrated portfolio that is periodically rebalanced. We look for those stocks that provide the most attractive potential sources of total return, split into earnings (and dividend) growth, valuation re-rating and dividend income. Company news, and in particular how it is likely to affect those components of total return, is always going to be of more interest to us than short-term noise in the market.

## Company news

Several companies in the portfolio recently announced earnings results or other news.

China Merchants Bank gave an early indication of good results for the first half of 2018, with net profits up 14% year-on-year. Deposit growth returned in the second quarter after being flat in the first, which offset a contraction in net interest margin. Non-interest income also grew at a robust rate and asset quality improved (reported Non Performing Loan ratio dropped 0.05% to 1.43%). The results were seen as broadly positive for the sector. The Chinese banks are to report results later in August.

Qualcomm conceded its acquisition of NXP after failing to receive clearance from regulators in China. The company instead announced that it would use its cash for \$30bn of share buybacks, to be done in stages. Qualcomm also announced results that were ahead of expectations which include the receipt of interim payments from a licensing customer (Qualcomm is currently in dispute with two of its customers: one is Apple, and the other is believed to be Huawei).

On the negative side, Qualcomm confirmed that Apple will be using a different modem supplier for its newest iPhone cycle. However, this is more a consequence of the dispute with Apple (which we expect the company to continue to take steps to resolve), and Qualcomm will continue to provide products for previous iPhone models. Aflac released strong results for the first half and revised its outlook for 2018 upwards. A new cancer insurance product in Japan was one of the main drivers behind Aflac Japan's pre-tax profit margins exceeding expectations (in yen terms). The successful product launch was supported by television advertising, a large direct mail campaign and the distribution of the product via over 20,000 Japan Post outlets.

DBS (Singaporean bank) reported record results for the first half in terms of total income (+13% year-on-year), profit before allowances (+14% year-on-year) and net profit (+23% year-on-year). Loan growth and higher net interest margin both contributed to top-line growth and were supported by higher fee income from wealth management and credit cards. The company's cost control was good, with the cost-income ratio maintained at 43%. An improvement in asset quality meant that specific allowances (provisions) halved.

Elite Material released results that were broadly in line with expectations, and with much better sales figures for July – indicating a return to growth – the share price had a welcome bounce. After the company's difficult first half of the year (in common with many smartphone hardware suppliers), we are optimistic that demand for the company's products will recover strongly in the second half.

Janus Henderson (an asset manager) announced broadly positive results for the second quarter. Investment performance of underlying funds is still satisfactory, but the company experienced continued net outflows (for the third consecutive quarter). Positive market performance reduced the overall impact on AUM, which closed the

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quarter marginally lower. The company's adjusted revenue was 2% higher than the previous quarter, but 1% lower year over year. A share buyback of up to \$100m was authorised by the board.

Significant news accompanying the results was the departure of co-CEO Andrew Formica (ex-Henderson) and the appointment of Dick Weil (ex-Janus from Pimco) as sole CEO. Mr Formica was well regarded by the market and his departure was likely viewed as a short-term setback for the company (the shares traded down 8.3% on the day of the announcement and results). However, moving to a single CEO is likely to be beneficial for the company over the long term.

Ascendas REIT announced the acquisition of 12 logistics properties in the UK for about £207m. The properties are distribution centres located close to motorways and include DHL and Amazon as tenants. Ascendas mentions weaker sterling following the Brexit referendum as a factor supporting the deal. The UK joins Australia as a location of the REIT's properties outside of Singapore.

Delta Electronics, the parent company of Delta Electronics (Thailand), which manufactures electrical power components, announced a tender offer to acquire the remainder of the company at a price of THB 71 (we hold the target in the portfolio).

## Summary and conclusion

July was a better month for Asian markets and an even better month for the fund. The overarching narrative surrounding trade was not enough to derail performance, as several companies reported good results and indicated a positive outlook for the rest of the year. This pattern highlights the merit in focusing on individual companies and the danger in making top-down or 'macro' calls – they are liable to be wrong!

Asia and Emerging Markets still offer attractive earnings growth compared to Developed Markets, while trading at reasonable valuations. Over the course of this year, the performance of Developed and Emerging Markets has diverged, as concerns over trade have weighed more heavily on the latter. We think that this makes the opportunity more attractive – lower valuations imply a higher likelihood of better future returns for investors.

In a time of uncertainty, we think that holding quality companies that have achieved consistently higher return on capital is a sensible approach.

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

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### Data sources

Fund performance: *Financial Express, total return*

Index and stock data: *Bloomberg*

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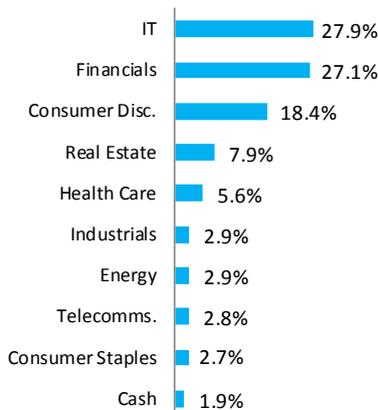
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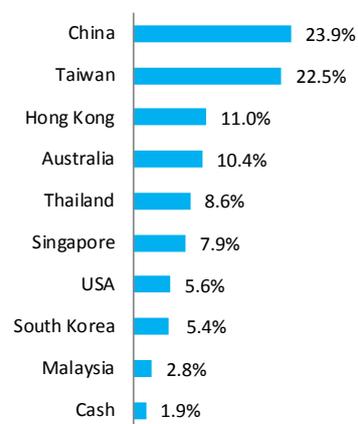
Fund top 10 holdings

St. Shine Optical Co	3.0%
Elite Material	3.0%
Delta Electronics	2.9%
Novatek Microelectronics	2.9%
Yangzijiang Shipbuilding	2.9%
PTT PCL	2.9%
Li & Fung	2.9%
Aflac	2.8%
Taiwan Semiconductor	2.8%
BOC Hong Kong	2.8%
% of Fund in top 10	28.9%
Total number of stocks in Fund	36

Sector analysis



Geographic allocation



PERFORMANCE

31/07/2018

Discrete years % total return

	Jul '14		Jul '15		Jul '16		Jul '17		Jul '18	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Fund (Y class, 0.99% OCF)	-	-	-	-	1.8	19.6	20.5	21.2	6.8	7.4
MSCI AC Pacific ex Japan Index	18.4	6.3	-9.8	-2.5	0.0	17.5	24.9	25.8	5.3	5.9
IA Asia Pacific ex Japan	17.2	5.3	-7.2	0.4	0.3	17.9	22.4	23.3	4.5	5.1

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)	3.7	4.4	-3.2	-0.2	6.8	7.4	31.1	55.8	52.9	90.6
MSCI AC Pacific ex Japan Index	0.6	1.3	-3.3	-0.3	5.3	5.9	31.6	56.5	33.4	66.4
IA Asia Pacific ex Japan	0.0	0.7	-4.1	-1.1	4.5	5.1	28.4	52.7	33.5	66.5

Annualised % total return from launch

	USD	GBP
Fund (Y class, 0.99% OCF)	9.63%	14.99%
MSCI AC Pacific ex Japan Index	6.44%	11.66%
IA Asia Pacific ex Japan	6.45%	11.67%

Risk analysis - Annualised, weekly, from launch on 19.12.2013

31/07/2018	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
Alpha	0.0	0.0	0.6	1.6	4.1	4.7
Beta	1.0	1.0	0.9	0.9	0.8	0.9
Information ratio	0.0	0.0	-0.1	0.0	0.5	0.5
Maximum drawdown	-29.1	-26.4	-26.7	-24.5	-24.3	-20.6
R squared	1.0	1.0	0.9	1.0	0.9	0.9
Sharpe ratio	0.2	0.6	0.2	0.6	0.5	0.8
Tracking error	0.0	0.0	3.8	3.8	5.8	5.8
Volatility	14.6	15.1	13.1	13.4	12.5	13.9

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Source: Financial Express, bid to bid, 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.

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## Guinness Asian Equity Income Fund

**GUINNESS**

ASSET MANAGEMENT

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