Guinness Asian Equity Income Fund

INVESTMENT COMMENTARY – December 2018

Launch date	**19.12.2013**
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

30/11/2018

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
Fund	-4.4	1.2	7.5	28.2	36.5	24.6
Index	-9.4	-4.1	7.8	28.6	37.3	25.4
Sector	-8.6	-3.4	5.3	25.7	37.2	25.3

	YTD		1 year		From launch	
	USD	GBP	USD	GBP	USD	GBP
Fund	-12.2	-6.9	-11.4	-6.0	38.8	77.9
Index	-11.8	-6.5	-9.2	-3.7	21.6	56.0
Sector	-12.7	-7.4	-10.6	-5.1	21.6	55.9

Annualised % total return from launch

	USD	GBP
Fund	6.8%	12.3%
Index	4.0%	9.4%
Sector	4.0%	9.4%

Risk analysis (annualised, weekly, from launch)

	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
Alpha	0	0.0	0.4	1.1	3.6	4.2
Beta	1	1.0	0.9	0.9	0.8	0.8
Info ratio	0	0.0	0.0	0.0	0.5	0.5
Max drwdn	-29.3	-26.4	-26.7	-24.5	-24.3	-20.6
Tracking err	0	0.0	3.7	3.7	5.9	5.9
Volatility	15.1	15.4	13.6	13.8	12.8	14.1
Sharpe ratio	0.0	0.4	0.0	0.4	0.3	0.6

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.

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Fund & Market

- November saw Asian markets bounce 4.1% in GBP terms/3.9% in USD terms/3.9% in EUR (as measured by MSCI AC Pacific ex Japan net return Index).
- Leading sectors were Real Estate, Industrials, Information Technology and Financials. Laggards were Energy, Materials, Consumer Staples and Health Care.
- The best-performing countries were Indonesia, Hong Kong, China and the Philippines; the weakest were Malaysia, Taiwan, Thailand and Australia.
- In the fund the outperformers were to be found amongst the Real Estate Investment Trusts (Capital and Mall Trust and The Link REIT) and amongst our Financials holdings including banks in China, Hong Kong and Singapore as well as Aflac, the insurer. Our Australian positions JB Hi-Fi, Sonic Healthcare and Corporate Travel Management also outperformed.
- Our Technology names, with the exception of Elite Material, all underperformed in November. Our exposure is focused in hardware and chip manufacturing rather than internet services. These stocks are facing the twin headwinds of trade uncertainty and the outlook for consumer electronics, especially smartphones.

Events in November

- US-China trade tensions continued to dominate headlines. The Asia-Pacific Economic Cooperation (APEC) forum in Papua New Guinea concluded without agreement on a joint communiqué.
- The US continued to apply pressure with a report from Trade Representative Robert

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Lighthizer alleging continued intellectual property theft by China.

- Attention then turned to the G20 talks in Argentina at the end of the month.
- US midterm elections resulted in the Democrat party taking control of the House of Representatives.
- Elsewhere, the UK Cabinet backed an agreement covering Britain's exit from the European Union. The deal is yet to be approved by the UK parliament.
- Talks between North Korea and Mike Pompeo on the subject of denuclearization were postponed.

Trade, macro and valuations

As we come to the end of the year, we make some observations on our views of the 'state of play' in Asia.

Trade

Progress on China trade talks has been as expected: the G20 summit produced a limited truce to allow a period for substantive talks to take place. The key negotiators from each side are now involved and the initial truce will last until 1st March 2019.

The most recent talks leading up to Christmas have produced a timetable of discussions in January. The US side will be looking for a timetable of reforms on the Chinese side that consist of steps that are measurable and verifiable. This position elicited a response form Xi Jinping that China will not be dictated to. In spite of this, China has already been active in implementing some of the easier demands. China has resumed purchases of US soy; market deregulation and intellectual property protections have advanced.

The recent arrest of Huawei's CFO and the daughter of the company's founder in Canada and at the request the US authorities has certainly complicated matters. Trump's assertion that he could become involved if it would help trade issues is strange because it illustrates again uncertainty on his true position. My personal view remains that Trump wants to do a deal; the initial complaint on trade imbalances was the area he wanted to address with some tough talk and then a deal. Along the way, however, it all became much more complicated as the focus shifted to unfair industrial policy and technology acquisition. In this area, it is his officials and Congress that have made the running. Indeed, during this process Trump has faced accusations from all sides that he is 'soft' on China.

The economic effects are becoming evident as the trade issues drag on. The first couple of months in 2019 will be important and it seems likely that we shall see some more public bust-ups before March 1st. We should, however, keep an eye on what the two sides actually do: in this respect, China's statements have been robust but their actions have all, without exception, been conciliatory and responses where required have been kept to a minimum.

China's economy

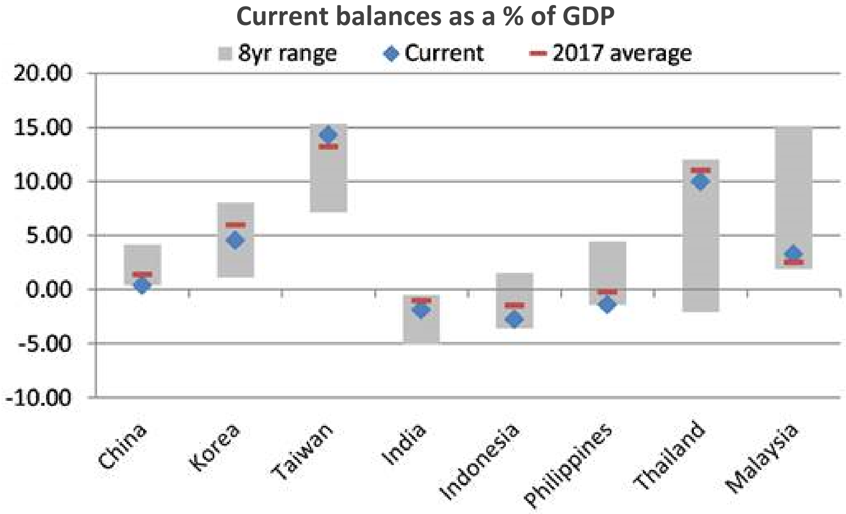
Clearly there is a slowdown underway. All the data point to slower investment, retail sales and industrial production. However, it is nowhere near the case that the economy is about to slump. We know that domestic economic confidence is a concern because of policymakers' efforts to combat it. The brighter side to this is that policymakers still have plenty of firepower in reserve. The most positive aspect in our view, is the nature of the policy responses falls within the larger framework of domestic reform.

The Chinese are not throwing money at the economy as they did in the past. Changes to tax rates and allowances are accompanied by changes in the way they are collected with a shift away from central to local government collection (the structure of central government versus local government financing has long been an issue). Banks are encouraged to lend to small and medium enterprises as well as private sector companies rather than to the big state-owned monoliths. But the encouragement comes in the form of market-based incentives, not through administrative edict. The main method is to offer access lower-cost funds either by releasing back to commercial banks deposit reserves which they have been required to place with the central bank or by broadening the use of the central bank's Medium Term Loan Facility, providing an attractive rate for three-year money (3.15%) so long as it is applied to 'approved lending'. Banks will still make their margins but the liquidity flow is re-directed to support the wider policy aim.

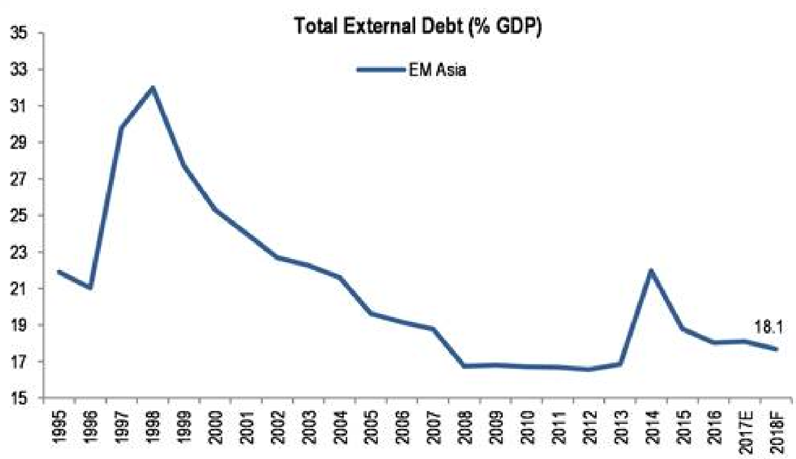
The Chinese currency has been stable through all this period. There has been some evidence of intervention when the exchange rate has approached RMB7 to the US dollar, but that has subsided of late and we have seen little evidence of capital outflows. Rather, it has been the offshore RMB, traded in Hong Kong, that seems to have set the tone. Weakness in offshore trading has spilled back into the onshore exchange rate. This makes tight RMB liquidity in the Hong Kong offshore RMB market, which is tiny by comparison to the mainland, of outsized importance. The tail is wagging the dog in this case. In response, China's central bank issued two bills of RMB 10bn ($1.5bn) each with maturities of three months and one year at rates slightly above market specifically to help manage liquidity and limit volatility in the offshore exchange rate. This is another example of a market-based response to a market problem.

Regional macro conditions

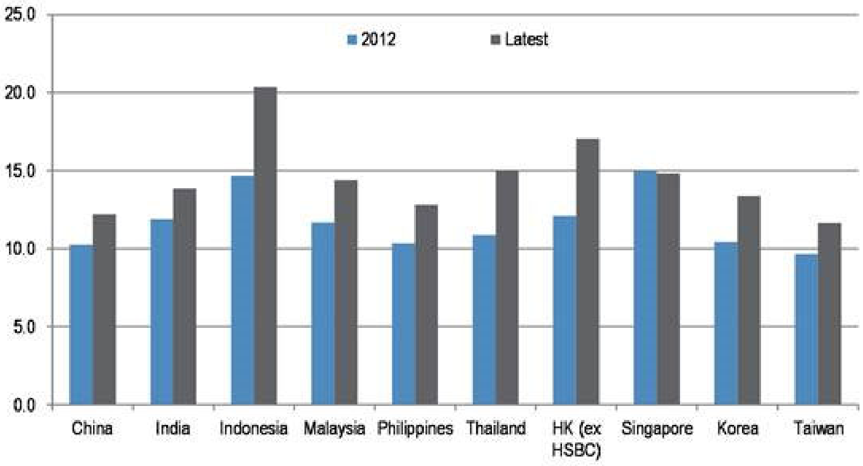
We have argued, and continue to argue, that Asian valuations reflect poor sentiment rather than a sober reflection of underlying conditions in Asia. In a series of charts (which were produced by JP Morgan) we show how national accounts are for the most part in surplus; how exposure to US dollar debt is limited and thus sensitivity to a strong dollar is that much less; and how banks' capital positions are not only high but have improved in the five years since 2012.



Exposure to a stronger US dollar is limited



Banks' capital ratios have improved



Outlook

In the short term, the noise is unlikely to let up. Uncertainty about trade, the Federal Reserve, the outlook for global growth and developed market valuations are all likely to persist. Asian equities are, however, already trading at depressed multiples. Investors as a group still appear to consider Asia as a 'warrant' on global growth. What is neglected is the scale of change that we have seen in the last 10-15 years. Manufacturing skills, quality and volume output mean that Asian sourcing is no longer simply a 'nice-to-have' option for western companies but is now a core component of complex supply chains. This manufacturing upgrade provides the basis for the growth in domestic Asian consumer demand which makes the regional economies more diversified and also less cyclical.

We all know that we ought to buy into Asia and emerging markets when they are cheap; and we also know that when they are cheap it is the hardest time to buy. Our offering is based on good quality businesses that have been profitable for years and whose valuations are currently depressed by sentiment which we argue is excessively gloomy on Asia overall – but especially on these quality businesses.

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

Data sources

Fund performance: *Financial Express, total return*

Index and stock data: *Bloomberg*

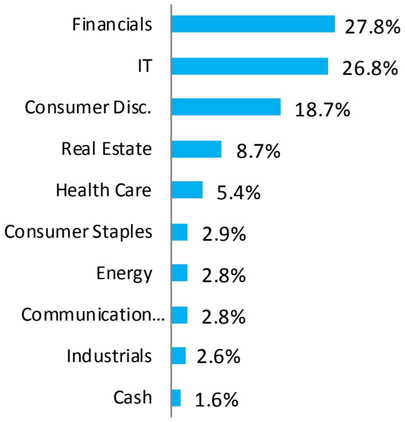
PORTFOLIO

30/11/2018

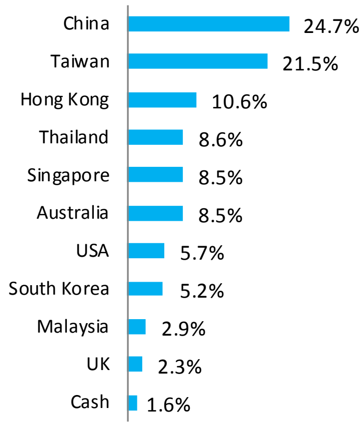
Fund top 10 holdings

Corporate Travel Management	3.1%
Capitamall Trust	3.1%
China Merchants Bank	3.0%
Tisco Financial Foreign	2.9%
Link REIT	2.9%
St. Shine Optical Co	2.9%
JB Hi-fi	2.9%
KT&G Corporation	2.9%
ICBC	2.9%
Public Bank Bhd	2.9%
% of Fund in top 10	29.5%
Total number of stocks in Fund	36

Sector analysis



Geographic allocation



PERFORMANCE

30/11/2018

Discrete years % total return

	Nov '14		Nov '15		Nov '16		Nov '17		Nov '18	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Fund (Y class, 0.99% OCF)	-	-	-	-	5.8	27.4	34.6	24.1	-11.4	-6.0
MSCI AC Pacific ex Japan Index	1.8	6.5	-11.4	-7.8	8.9	31.1	31.4	21.3	-9.2	-3.7
IA Asia Pacific ex Japan	4.5	9.3	-10.0	-6.4	6.4	28.1	31.9	21.8	-10.6	-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)	1.6	1.7	-12.2	-6.9	-11.4	-6.0	26.1	48.6	38.8	77.9
MSCI AC Pacific ex Japan Index	3.9	4.1	-11.8	-6.5	-9.2	-3.7	29.9	53.3	21.6	56.0
IA Asia Pacific ex Japan	4.6	4.7	-12.7	-7.4	-10.6	-5.1	25.5	48.1	21.6	55.9

Annualised % total return from launch

	USD	GBP
Fund (Y class, 0.99% OCF)	6.8%	12.3%
MSCI AC Pacific ex Japan Index	4.0%	9.4%
IA Asia Pacific ex Japan	4.0%	9.4%

Risk analysis - Annualised, weekly, from launch on 19.12.2013

30/11/2018	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
Alpha	0.0	0.0	0.4	1.1	3.6	4.2
Beta	1.0	1.0	0.9	0.9	0.8	0.8
Information ratio	0.0	0.0	0.0	0.0	0.5	0.5
Maximum drawdown	-29.3	-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	0.0	0.4	0.0	0.4	0.3	0.6
Tracking error	0.0	0.0	3.7	3.7	5.9	5.9
Volatility	15.1	15.4	13.6	13.8	12.8	14.1

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Source: Financial Express, bid to bid, 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: 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. The paying agent is Banque Cantonale de Genève, 17 Quai de l'Ile, 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.