Guinness Asian Equity Income Fund

INVESTMENT COMMENTARY – February 2019

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.

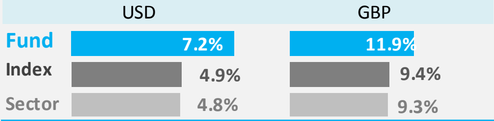
Performance 31/01/2019

Fund	Guinness Asian Equity Income (Y)
Index	MSCI AC Pacific ex Japan Index
Sector	IA Asia Pacific ex Japan

	2016		2017		2018	
	USD	GBP	USD	GBP	USD	GBP
Fund	7.5	28.2	36.5	24.6	-15.5	-10.3
Index	7.8	28.6	37.3	25.4	-14.5	-9.2
Sector	5.3	25.7	37.2	25.3	-15.1	-9.8

	YTD		1 year		From launch	
	USD	GBP	USD	GBP	USD	GBP
Fund	7.0	3.6	-13.7	-6.7	42.8	77.5
Index	8.2	4.7	-13.6	-6.6	27.6	58.7
Sector	7.3	3.9	-14.3	-7.4	26.8	57.8

Annualised % total return from launch



Risk analysis (annualised, weekly, from launch)

	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
Alpha	0	0.0	0.4	1.0	3.3	3.7
Beta	1	1.0	0.9	0.9	0.8	0.9
Info ratio	0	0.0	0.0	0.0	0.4	0.4
Max drwdn	-29.3	-26.4	-26.7	-24.5	-24.3	-20.6
Tracking err	0	0.0	3.7	3.7	5.8	5.8
Volatility	15.0	15.3	13.6	13.7	12.8	14.0
Sharpe ratio	0.1	0.4	0.1	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.

Fund & Market

- January saw Asian markets bounce (4.7% in GBP terms/8.2% in USD and in EUR) as measured by MSCI AC Pacific ex Japan net return Index.
- Leading sectors were Consumer Discretionary, Real Estate, Energy, IT and Materials. Laggards were Utilities, Financials, Consumer Staples, Industrials and Health Care.
- The best-performing countries were China, Korea, Indonesia, Thailand and the Philippines. The weakest were Taiwan, Malaysia, New Zealand, Singapore and Australia.
- In the fund the outperformers were among the Chinese banks and IT names Elite Materials, Largan Precision, Asustek Computer and Novatek Microelectronics. Hanon Systems, the Korean auto parts business, Yangzijiang Shipbuilding and Thai energy company PTT complete the picture.
- Underperformers during the month included smartphone-related names Catcher Technology, Hon Hai Precision and Qualcomm. Banks outside China, including DBS in Singapore, Public Bank in Malaysia and BOC Hong Kong rose only modestly as the interest rate backdrop turned more benign.

Events in January

- The Federal reserve signalled a policy change and a moderation in the pace of interest rate increases.
- The value of the dollar eased on a trade-weighted basis.
- Positive noises from President Trump on trade talks with China raised hopes of progress.
- The US government shut-down ended after 35 days.

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- World stock markets bounced after the sharp sell-off in December. Emerging Markets outperformed.

- The collapse of a dam at one of Vale's iron ore mines in Brazil has caused iron ore prices to spike as Vale declared force majeure, potentially reducing production by 40m tonnes.

- Brexit negotiations still appear to be stalled.

The stock market recovery in January has come as a relief following a miserable month in December. Asia and Emerging Markets outperformed Developed Markets and in fact are ahead since the lows in October. The environment as we enter 2019 seems reminiscent of the conditions at the end of 2015/beginning of 2016: US interest rate outlook turns more benign; the trade-weighted dollar value appears to have peaked, and we are looking forward to the effects of policy stimulus in China coming through. If we add to the mix low valuations and the possibility that earnings growth in the US may also have reached a peak, then conditions look favourable for Asian and Emerging Market outperformance.

We argue that investors ought to be looking at building positions in Asia. There are many who have been looking for an entry point and we believe that now is just such a time. At the end of December, valuations had retreated to the lows of 2015. Understandably, people were still nervous, but the bounce back in January should boost confidence. The Chinese slow-down is the most often quoted reason for holding back, but investors are going to have to get used to the idea that China's economy has been slowing and will continue to do so, because China's economy is changing.

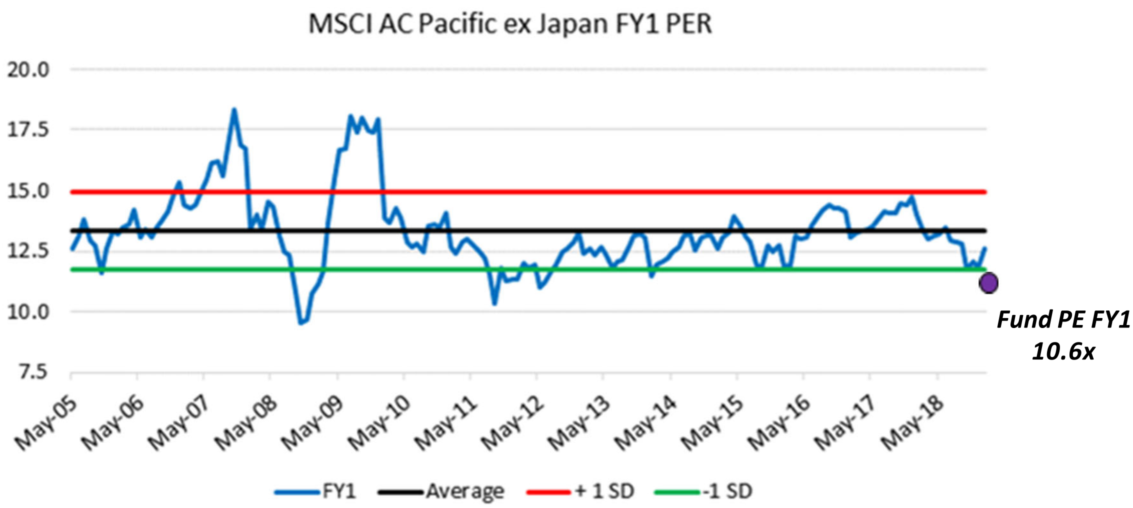
At its current size, 6% growth in China's economy adds another Switzerland each year. If we were to assume that China's GDP grew by 6% this year, 5% next year, 4% the year after (a rate of decline that would certainly cause a stir!) then in five years' time, in GDP terms, China will have added another India. The slowing growth rate is not the issue, but the effect this may have on cash generation, profitability and debt servicing that is important. And as China's economy broadens and deepens into consumption and services, away from debt-funded investment, profitability improves.

We have been encouraged to see the operating performance of the Chinese banking sector in recent months as the macro-economic slowdown has become more apparent, because it is in this sector that the 'old' and 'new' Chinese economies meet. The debt built up by the old economy sits in the banks, and in order for them to provide a useful function in China's new economy, they have to manage the legacy and transform into market-led commercial institutions. The news flow of on-going regulation, bad debt recognition and improved market practice has been evident in 2018 performance, which showed rising net interest margins, solid cost control, accelerated bad debt write-downs and shrinking balance sheets as shadow banking activity has reduced. Many of our peers have been, and remain, sceptical, but regulatory change has translated into better-than-expected operating performance, which in turn has delivered share price outperformance in four of the last five years, including in 2018.

There are signs too that the technology sector may be beginning to come out of its malaise. Semiconductor stocks in the US have reported an improving outlook which has fed through to the performance of TSMC and Novatek Microelectronics. The smartphone area remains contentious, especially following Apple's warning that the China slow-down was responsible for its sales drop. A closer look reveals a different picture: while volume sales of smartphones fell 10% in the fourth quarter, Apple's sales fell 20%. This begins to look more like an Apple problem than a China problem, especially when we see that local makes Huawei, Oppo and Vivo reported volume growth. Among smartphone-related stocks in the portfolio we have seen upgrades to forecasts for both Largan Precision and Elite Material.

We are still early in the season for earnings reports and company outlooks for 2019, but early indications are of a more optimistic picture. We do not expect Asian markets to hang around waiting for results to come through but instead to look through and anticipate. The chart below shows the forward price/earnings multiple (PER) for the MSCI AC Pacific ex Japan Index over the last ten years; we can see that even after the bounce in January it still looks cheap compared to its history.

But perhaps most exciting is the valuation of the Fund which is at a deep discount to the market. For a group of companies with a return on capital twice that of the broad market and a history of steady cash profits and growing dividends over years, this valuation discount looks wrong.



Source Bloomberg, Guinness Asset Management; 31 May 2005 to 31 January 2019

Outlook

In the short term we expect China-US trade talks to overhang the market as they struggle to reach a deal that will satisfy the hawks on both sides. But we do not expect any of this to change the direction of travel. The Asian region offers structural themes (consumption, life-style upgrading, rising manufacturing skills) that will continue to develop despite the current trade dispute between the US and China.

However, the capture of these long-term themes is best done, in our opinion, through investment in companies that have demonstrated a long-term track record of turning them into superior profitability and delivered dividend growth. If Asian corporations continue to report earnings that meet market expectations, then the prospects for investors look bright. Valuations at these levels augur for attractive shareholder returns in future. The main risks are a significant decline in Chinese economic activity, or potentially a wider global economic slowdown. Nevertheless, Asian equities appear attractive, particularly in the context of higher valuations elsewhere in the world.

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

Data sources

Fund performance: *Financial Express, total return*

Index and stock data: *Bloomberg*

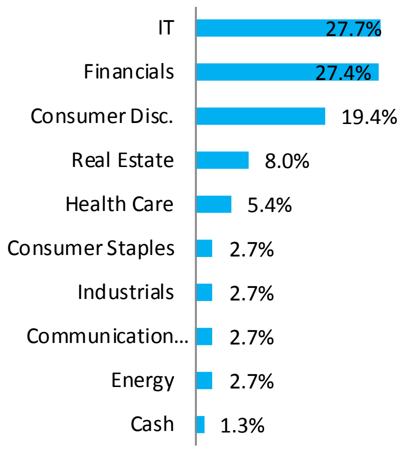
PORTFOLIO

31/01/2019

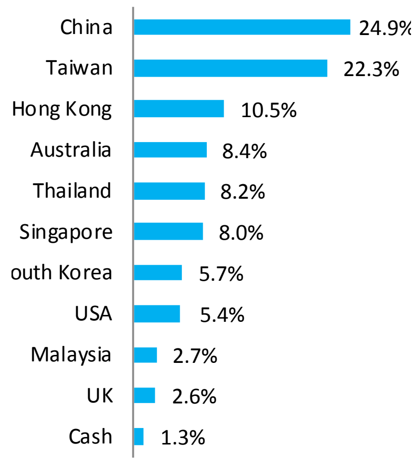
Fund top 10 holdings

Hanon Systems	3.0%
Corporate Travel Manage	2.9%
China Merchants Bank	2.9%
Novatek Microelectronic	2.9%
Elite Material	2.9%
Largan Precision	2.9%
ICBC	2.8%
China Lilang	2.8%
Catcher Technology	2.8%
JB Hi-fi	2.8%
% of Fund in top 10	28.7%
Total number of stocks	36

Sector analysis



Geographic allocation



PERFORMANCE

31/01/2019

Discrete years % total return

	Jan '15		Jan '16		Jan '17		Jan '18		Jan '19	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Fund (Y class, 0.99% OCF)	-	-	-	-	19.8	35.0	36.6	20.8	-13.7	-6.7
MSCI AC Pacific ex Japan Index	8.1	18.3	-17.6	-12.8	23.6	39.3	38.3	22.4	-13.6	-6.6
IA Asia Pacific ex Japan	9.7	20.1	-17.3	-12.4	22.3	37.9	37.1	21.3	-14.3	-7.4

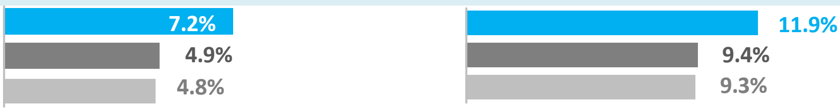
Cumulative % total return

	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)	7.0	3.6	7.0	3.6	-13.7	-6.7	41.3	52.3	42.8	77.5
MSCI AC Pacific ex Japan Index	8.2	4.7	8.2	4.7	-13.6	-6.6	47.8	59.4	27.6	58.7
IA Asia Pacific ex Japan	7.3	3.9	7.3	3.9	-14.3	-7.4	43.7	55.0	26.8	57.8

Annualised % total return from launch

USD GBP

Fund (Y class, 0.99% OCF)
MSCI AC Pacific ex Japan Index
IA Asia Pacific ex Japan



Risk analysis - Annualised, weekly, from launch on 19.12.2013

31/01/2019	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
Alpha	0.0	0.0	0.4	1.0	3.3	3.7
Beta	1.0	1.0	0.9	0.9	0.8	0.9
Information ratio	0.0	0.0	0.0	0.0	0.4	0.4
Maximum drawdown	-29.3	-26.4	-26.7	-24.5	-24.3	-20.6
R squared	1.0	1.0	1.0	1.0	0.9	0.9
Sharpe ratio	0.1	0.4	0.1	0.4	0.3	0.6
Tracking error	0.0	0.0	3.7	3.7	5.8	5.8
Volatility	15.0	15.3	13.6	13.7	12.8	14.0

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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.