

Guinness Asian Equity Income Fund

INVESTMENT COMMENTARY – August 2019

Launch date 19.12.2013

Team
Edmund Harriss (manager)
Mark Hammonds (manager)
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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 31/07/2019

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	12.0	16.5	-2.2	4.7	49.4	99.6
Index	11.6	16.1	-1.4	5.7	31.6	75.9
Sector	12.6	17.1	-0.3	6.8	33.1	77.9

Annualised % total return from launch

	USD		GBP	
Fund	7.4%		13.1%	
Index	5.0%		10.6%	
Sector	5.2%		10.8%	

Risk analysis (annualised, weekly, from launch)

	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
Alpha	0	0.0	0.6	1.3	3.4	3.9
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 drwn	-29.3	-26.4	-26.7	-24.5	-24.3	-20.6
Tracking err	0	0.0	3.6	3.6	5.7	5.7
Volatility	14.8	15.0	13.5	13.4	12.8	13.8
Sharpe ratio	0.1	0.5	0.1	0.5	0.3	0.7

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

- In July, Asian markets as measured by the MSCI AC Pacific ex Japan Index were up 3.0% in GBP terms, up 1.2% in EUR and were down 0.9% in USD terms.
- During the month Asian markets were weaker than developed markets as measured by the MSCI World Index and were the weaker emerging markets area, underperforming Latin America and emerging Europe, Middle East and Africa (EMEA) as measured by the MSCI regional indices.
- The main drag was on regional performance was Korea, where the Fund is underweight, followed by Hong Kong and Thailand. The weakest sector were Materials, Real Estate and Industrials.
- The Fund's best-performing stocks during the month were technology names Elite Material, Largan Precision and Taiwan Semiconductor Manufacturing, along with Thai finance company Tisco and Australian retailer JB Hi-Fi.
- Laggard stocks were Li & Fung, Yangzijiang Shipbuilding, Industrial and Commercial Bank of China, China Mobile and St Shine Optical.

Events in July

- Korea faced multiple headwinds including its trade dispute with Japan, North Korean missile launches and President Trump casting doubt over Korea's developing status within the World Trade Organisation.
- Korean economic growth in the second quarter recovered to 1.1% quarter-on-quarter following a contraction in the first three months of the year, although this was due to government spending rather than private sector activity. The Bank of Korea Call Rate of interest was cut 0.25% to 1.5%.

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- China's economic growth in the second quarter came in at 6.2% compared to a year ago (quarter-on-quarter the rate of growth was 5.9%). This is the slowest pace in 25 years but should not be viewed in 'crisis' terms. Economic growth has been slowing since 2010.
- US-China trade talks held in Shanghai were friendly, although little actual progress was made. Two days later, to the evident surprise of both negotiating teams, President Trump signalled his intention to increase tariffs further.
- The US Federal Reserve cut interest rates by 0.25%, not the 0.5% that some were seeking. The Fed Chairman has called this a "mid-cycle adjustment".

Portfolio positioning

This month we cut back our exposure to Chinese commercial banks with the sales of Industrial & Commercial Bank of China (ICBC) and China Minsheng Bank. These positions were replaced by purchases of Ping An Insurance and China Resources Gas.

The reduction to our Chinese banks is driven by changes in the operating environment. Our thesis at the time of purchase was that banks had been heavily oversold on fears of a substantial rise in the quantity of bad debts. Our view was that we would not see a spike but that the problem would be managed over time with a gradual write-down of bad loans. We expected earnings and dividends to remain stable, and with this as a base, we expected to see an expansion in the valuation multiple. This thesis has played out very well.

We now think that this process may have run its course. We expect to see pressure on bank profitability as changes to the method of loan pricing, away from the old Benchmark Lending Rate (BLR) to the new Loan Prime Rate (LPR), are likely to reduce interest income. The new LPR mechanism described by the Central Bank is based upon money market rates, specifically the Medium-term Loan Facility Rate, and is intended to bring down the overall cost of borrowing. The other headwind is the likely increase in bad debt pressures as China's domestic economy undergoes a cyclical slowdown, exacerbated by the structural pressures brought on by deleveraging and by the effects of the on-going trade dispute.

In this environment we have decided to cut our 'deep-value' positions, which have done well for the Fund, and move into names that are a little more expensive but which in our opinion offer a more obvious growth path. Ping An Insurance is a financial conglomerate the bulk of which is made up of life insurance, property and casualty insurance and banking. The dividend has grown each year since 2011 with both profit growth and the expansion of the proportion of profits paid out (the payout ratio) from 17% in 2011 to 32% in 2018. Recent results showed strong performance in both the insurance and banking divisions, which supports our belief that this company is well placed for the structural story that we think is playing out in China with its ageing and increasingly wealthy population.

China Resources Gas (CRG) is one of the few utility companies that make it into our universe. Its focus is on the provision of gas to urban household customers. While other gas businesses in China seek to become involved in the wholesale gas market or expand into rural areas, we like CRG for its focus on domestic urban and industrial customers. There is a long-term drive in China to support wider use of gas

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in place of coal for electricity production. CRG benefits on the back of this through the increasing supply of gas nationwide and is tapping into this through the so-called 'last mile' connection. As with Ping An, dividend growth has been driven by a combination of profit growth and an expanding payout ratio. It is possible the coming months may see slower growth from its industrial customer base but we think that there is a structural growth story here and that conditions remain supportive for CRG's margins.

Outlook

In next month's commentary we will discuss recent company results in more detail and a further change to the portfolio. We think that conditions in Asia, and for stocks globally, are going to become increasingly difficult. The trade dispute between China and the US is grabbing many of the headlines but this tends to overshadow the undeniable rise of protectionism world-wide. Slowing growth in Germany is another sign of weaker global demand given the importance of capital goods, chemicals and autos in Germany's industrial complex. It is not all doom, however; the technology sector is being pushed around day-to-day on newsflow but the regular bounce-backs we see as being a sign of a powerful underlying growth story that remains intact.

Our focus has to be maintained on companies that have growth profiles that are determined by their own competitive positions rather than on favourable external factors. By growth, we mean those companies with pricing power and that can grow revenues through either market share gains or through wider demand growth, which we think can then flow through to profit and dividend growth. Changes that we make to the portfolio have been made with these factors in mind and this year we expect the number of changes will exceed the average two changes per year that we have made in the last five years.

Edmund Harriss

Mark Hammonds (portfolio managers)

Sharukh Malik (analyst)

Data sources

Fund performance: *Financial Express, total return*

Index and stock data: *Bloomberg*

Guinness Asian Equity Income Fund

PORTFOLIO

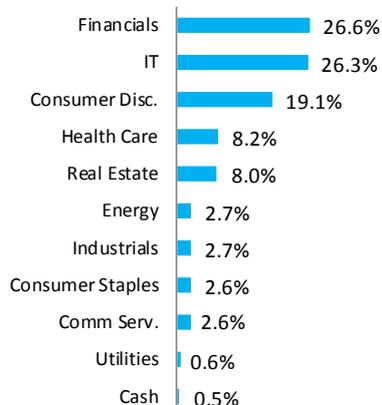
31/07/2019

Fund top 10 holdings

Elite Material	3.6%
Largan Precision	3.1%
JB Hi-fi	3.1%
Tisco Financial Foreign	3.1%
Catcher Technology	3.0%
Corporate Travel Management	3.0%
China Medical System	2.9%
Janus Henderson	2.9%
Taiwan Semiconductor	2.9%
Hon Hai Precision Industry	2.8%

% of Fund in top 10 30.4%
 Total number of stocks in Fund 38

Sector analysis



Geographic allocation



PERFORMANCE

31/07/2019

Discrete years % total return

	Jul '15		Jul '16		Jul '17		Jul '18		Jul '19	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Fund (Y class, 0.99% OCF)	3.4	11.9	1.8	19.6	20.5	21.2	6.8	7.4	-2.2	4.7
MSCI AC Pacific ex Japan Index	-9.8	-2.5	0.0	17.5	24.9	25.8	5.3	5.9	-1.4	5.7
IA Asia Pacific ex Japan	-7.2	0.4	0.3	17.9	22.4	23.3	4.5	5.1	-0.3	6.8

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)	-0.1	3.8	12.0	16.5	-2.2	4.7	25.8	36.3	49.4	99.6
MSCI AC Pacific ex Japan Index	-1.0	3.0	11.6	16.1	-1.4	5.7	29.8	40.8	31.6	75.9
IA Asia Pacific ex Japan	-0.8	3.2	12.6	17.1	-0.3	6.8	27.6	38.3	33.1	77.9

Annualised % total return from launch

	USD		GBP	
Fund (Y class, 0.99% OCF)	7.4%		3.1%	
MSCI AC Pacific ex Japan Index	5.0%		10.6%	
IA Asia Pacific ex Japan	5.2%		10.8%	

Risk analysis - Annualised, weekly, from launch on 19.12.2013

31/07/2019	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
Alpha	0.0	0.0	0.6	1.3	3.4	3.9
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	0.5	0.1	0.5	0.3	0.7
Tracking error	0.0	0.0	3.6	3.6	5.7	5.7
Volatility	14.8	15.0	13.5	13.4	12.8	13.8

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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, 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'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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