

Guinness Asian Equity Income Fund

INVESTMENT COMMENTARY – September 2019

Launch date 19.12.2013

Team
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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 31/08/2019

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 | 6.8 | 11.7 | -6.4 | -0.2 | 42.5 | 91.4 |
| Index | 6.6 | 11.5 | -4.6 | 1.9 | 25.7 | 68.8 |
| Sector | 7.7 | 12.6 | -3.3 | 3.3 | 27.3 | 71.0 |

Annualised % total return from launch

| | USD | | GBP | |
|---------------|-------------|------|------|-------|
| | Fund | 6.4% | | 12.1% |
| Index | 4.1% | | 9.6% | |
| Sector | 4.3% | | 9.9% | |

Risk analysis (annualised, weekly, from launch)

| | Index | | Sector | | Fund | |
|---------------------|-------|-------|--------|-------|-------|-------|
| | USD | GBP | USD | GBP | USD | GBP |
| Alpha | 0 | 0.0 | 0.6 | 1.3 | 3.1 | 3.7 |
| Beta | 1 | 1.0 | 0.9 | 0.9 | 0.8 | 0.9 |
| Info ratio | 0 | 0.0 | 0.1 | 0.1 | 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 | 14.9 | 14.9 | 13.5 | 13.4 | 12.9 | 13.8 |
| Sharpe ratio | 0.0 | 0.4 | 0.1 | 0.5 | 0.2 | 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

- Asian markets as measured by the MSCI AC Pacific ex Japan Index were down 4.0% in GBP terms (-3.2% in EUR and -4.5% in USD terms).
- During the month Asian markets were weaker than developed markets as measured by the MSCI World Index but were better than other emerging markets areas Latin America and emerging Europe, Middle East and Africa (EMEA) as measured by the MSCI regional indices.
- The weakest Asia Pacific markets during the month were Hong Kong and Singapore, but all stock markets in the region ended lower, with China, Korea, Malaysia, Australia, Indonesia and the Philippines moving broadly in line. On a sector basis, Health Care, Consumer sectors and Technology held up better. Materials, Energy, Industrials, Communication Services, Financials and Utilities all fell further than the benchmark index.
- The best-performing stocks in the portfolio were China Medical Systems, Technology names Elite Material, Novatek Microelectronics and Qualcomm, followed by JB Hi-Fi and KT&G.
- Laggard stocks were Yangzijiang Shipbuilding, Corporate Travel, AAC Technology, Li & Fung and Hong Kong stocks Luk Fook and BOC Hong Kong.

Events in August

- Central banks cut their benchmark interest rates by 0.25% in Indonesia, Thailand, and the Philippines. New Zealand moved more aggressively by unexpectedly cutting its benchmark interest rate by 0.5% to 1%, which brought it into line with Australia.
- China has brought out its latest lending reform. Instead of banks pricing their loans relative to the one-year Benchmark Lending Rate, which has

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stood at 4.35% since 2015, a new Loan Prime Lending Rate has been launched. The interest rate will be based on market interest rates and will be reset monthly (on the 20th day). It currently stands at 4.25%.

- Protests in Hong Kong continue against the government's (in reality, Beijing's) intransigence on the Extradition Bill, among other demands. In the last day or so, the Hong Kong government has announced the formal withdrawal of the Bill.
- Economic weakness in India continues to spook markets. We believe the core issue relates to the supply of credit and the level of bad debt in both banking and non-bank financial institutions. A slew of mergers among state banks has been announced, as well as recapitalisation measures to support them.
- New tariffs of 10% on the remaining \$300 billion of Chinese goods were announced by President Trump to go into effect on 1st September; he then deferred tariffs on c.\$156 billion of goods until 15 December as a 'Christmas present' for American retailers and consumers.
- Shortly after the tariff escalation China's currency, the renminbi weakened and exceeded RMB7 to the US dollar.
- Evidence is building that China's economy is slowing further; only moderate stimulus has been provided by the government so far and we expect this to increase in coming weeks.

Market commentary

The effects of the drawn-out trade dispute are now having a wider impact, with growing fears of a broader economic slowdown giving rise to an inversion of the US government bond yield curve (which occurs when the yield on bonds with earlier maturity dates exceeds that of longer-dated bonds, often seen as a harbinger of recession). There is a hot debate between bulls and bears as to the likelihood of recession, but stock markets took fright.

The US Federal Reserve cut interest rates by 0.25% in July and is widely expected to do so again before the year is out. Central banks around the world have been easing in July and August. Interest rates in Australia and New Zealand now stand at 1%; the Bank of Thailand cut by 0.25% for the first time since 2015 to 1.5%; Indonesia and India both announced cuts to 5.5% and 5.4% respectively. Korea moved in July to 1.5% while China, Singapore and Taiwan have held steady. China's monetary environment requires closer analysis because there are systemic reforms underway. However, it is clear to us that the direction of travel is toward easing; to lower the cost of credit in the system both through a revised pricing mechanism as well as by the provision of additional liquidity, which looks likely to be stepped up soon.

Macroeconomic data in Asia, in Europe and in the US tend (with variations) to point to slowing growth in trade, industrial production and investment. But these have been countered by generally strong consumer confidence measures supported, especially in the US, by strong labour markets. The July trade data from China showed exports growth of 3% compared to a contraction in June, while China's manufacturing Purchasing Managers Index (PMI, a measure of manufacturing confidence) moved back into expansion in August.

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Company results reported in August

Corporate Travel Management reported revenue growth of 20% and net profit after tax up 12% compared to 2018. The dividend grew in line. Australia/New Zealand, Europe and North America all reported growth in total transaction volume of 12%-16% growth, but it was Asia that roared ahead with 70% growth, making it the largest geographic component. All eyes however are on the outlook, with the CEO striking a cautious tone on the coming 12 months, citing trade disputes and upheavals in Hong Kong. His full-year guidance was for 10%-16.5% growth in the coming year, but of course that is not guaranteed.

Janus Henderson reported weaker-than-expected results for the interim period to 30 June 2019 as fee pressures and outflows continue. The main area of weakness for them has been in the quantitative strategies, while their active funds, especially in equities, have shown a marked improvement. It will take time for asset flows to turn but we think the performance improvement, once it starts to show up in the three-year numbers, will help. In the meantime, the dividend paid in 2019 has been unchanged from the same period in 2018.

JB Hi-Fi defied the retail malaise in Australia and the presence of Amazon to deliver revenue growth of 3.5% and net profit growth of 7%, showing once again its tight control on costs. An important development was the sales growth achieved by The Good Guys, the household goods business acquired in 2016, which was accompanied by gross and operating margin expansion. Management commented in its results last year that improvements in this area were making progress and were a key area of focus. The dividend rose 7.5% in line with profit growth.

Sonic Healthcare, a provider of medical diagnostic services, reported 16% profit growth for the year ended 30 June 2019. The underlying operating earnings once currency effects had been removed was 6.7%, which was in line with the company's earlier guidance of 6%-8%. The big development for Sonic was its US acquisition of Aurora Diagnostics which completed in January. This business allows the company to break into anatomical pathology in the US. The dividend increased by 4% over last year, in line with its progressive dividend policy approach.

China Construction Bank reported first-half 2019 net profit growth of 5% over the same period last year. The bank pays an annual dividend after its full-year results. Its net interest margin contracted to 2.27% from 2.31% but was more resilient than expected. Combined with stable growth in fee income and lower bad debt ratios, both for non-performing loans and for those categorised as Special Mention loans, the net profit grew 5%.

China Merchants Bank reported 13% net profit growth compared to the first six months of last year. The bank's focus on its retail franchise delivered 7% growth in retail clients to 134 million customers. There is particular effort being put into the high net worth segment (defined by the bank as those with an average daily asset value with the bank of RMB 500,000 / US\$70,000). Net interest margin contracted over the period to 2.69% from 2.71%. Asset quality continues to improve with an 18% decline in so-called Non-Standard Assets (i.e. riskier wealth management products); the bank has also added further precautionary provisions in this segment.

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Ping An Insurance reported results for the first six months of 2019 with net profit up 68% year on year. Part of that growth is due to the rally in Chinese stocks during the period which resulted in a substantial increase in investment income. Our focus, therefore, is on operating income after tax, which strips out this effect and which rose 24%. The financial businesses all performed well: Life & Health saw margins expand; Property and Casualty insurance operating profit was up almost 70%; and Ping An Bank is hitting its stride with over 70% of its net profit coming from its retail banking business. There is still scope for the bank to bring down its funding costs, thereby improving its margins, and concerns about non-performing loans in the unsecured consumer loans segment is easing. The interim dividend rose 21% over the same period last year, in line with operating profit growth.

AAC Technologies reported interim results that fell short of expectations. Net profit halved compared to the same period last year on declines in both revenues and gross margin, which fell 9% to 27.5%. Revenue from acoustics, electromagnetic drives and precision mechanics all fell, while revenue from the newer optics business rose. The company is exposed to fierce competition and counts Apple and Huawei amongst its largest customers. Thus the company is feeling the effects of the trade dispute as well as weaker iPhone sales. AAC needs to address its product mix as well as continue to diversify its customer base. The interim dividend was unchanged from last year.

BOC Hong Kong reported interim results that showed loan growth of almost 10%, well above the Hong Kong sector average of 3.3%, and balanced between corporate and consumer lending. Weaker fee income and higher costs for bad debt were the only negatives, but these were of scale to cause concern. Interest cuts are likely to exert downward pressure on margins and macro issues, including upheaval in Hong Kong and in US/China trade are also headwinds. But the bank is reasonably diversified, with a strong capital base which we think will continue to support the dividend, which has grown 5% per year over the past five years.

China Lilang reported sales growth of 19% and profit growth of 14% for the first six months of the year. Same-store sales growth for LILANZ, the core brand, was very good at 9%, with footwear up 30% and tops growing 23%. The company was more cautious on prospects at the 2020 Spring/Summer fair but recently reported 6%-9% growth in total order value and average selling prices similar to those for last year. The company continues to expand its store network, but this may slow a little next year. The interim dividend was up 13%.

China Medical Systems reported a profit surprise with revenue for the first half of the year up 12% and net profit up 22%. The company is diversifying the number of drugs on its books to reduce exposure to the regulatory pressure aimed at lowering the cost of drugs supplied to hospitals. The cardiovascular segment, which is most exposed, accounted for 45% of sales, down from 48% in the same period last year. By contrast, sales in the profitable digestion-related segment rose to 35% of the total from 32% last year. China Medical also announced a closer tie-up with India's Sun Pharmaceutical to develop and commercialise seven generic drugs over the next 20 years. The interim dividend grew 23%, in line with net profit growth.

China Mobile delivered no surprises in its first-half results report. Cellular revenue fell 7.5% over the same period last year, but as in prior years this was offset by strong growth in fixed and other revenue, which grew 43%. Overall, service revenue was down 1.3% over the same period last year. Accounting changes

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concerning the treatment of leases distorted the year-on-year comparison for net profit, which declined 14.6%. Operating metrics are undoubtedly anaemic, and in our opinion the stock is not priced to include any growth. In our view, the dividend is still 'safe' and the proportion of earnings distributed as a dividend is set to rise. The focus is on 5G network investment as China seeks to establish itself and its companies (especially Huawei) as a significant force in this technology. The worry from investors has been of a sharp increase in capital expenditure, but the company's Chairman made more detailed comments than usual, mentioning that accelerated 5G spending would be offset by cuts to spending on the legacy business to keep overall expenditure in the expected peak years of 2020 to 2022 'substantially' similar to current levels. He also stated the intention to maintain a 'stable' dividend per share.

China Resources Gas reported 18% revenue growth and 11% net profit growth for the first six months, compared to the same period last year. The difference was attributable to higher gas procurement costs driven by the higher costs of gas on a seasonal basis but also by the merging of two tiers of 'city-gate gas prices'; only some of the cost increase was passed through. We are not concerned by this and expect procurement costs to stabilise with the new pricing mechanism and for costs to be passed through. The company has the largest group of residential customers of the city gas companies and expects to add c.3 million new customers each year; with urban residential gas penetration rates around 56% at present, we believe this rate of addition is achievable. The dividend remained unchanged, as has been the case at the interim stage for the past four years.

Li & Fung reported an 8.4% decline in revenue for the first six months of this year. Global uncertainty as well as store closures among retail clients still weighs on the company. The management continues with its restructuring and has sold a 20% stake in its logistics business to Temasek of Singapore. The company's restructuring of its internal operation to improve productivity is starting to come through. During a conference call with the company's CEO we were left in no doubt that there is still further to go before the business turns but we were also encouraged by the signs that current efforts are having an effect. New client wins and the new client pipeline support the view that Li & Fung is uniquely suited to provide a service. Their best years were when the sourcing world was fragmented. China's entry to the WTO and the end of the Multi-Fibre Agreement, which restricted sourcing of textile goods, meant that many retailers no longer needed the specialist services provided by Li & Fung. Now clients are finding the world to be more complicated and they can no longer manage on their own. The dividend fell but the dividend policy of the company remains unchanged.

Hanon Systems reported results for the second quarter of 2019 with operating profit up 11%. Headwinds from China persist but the acquisition of Magna FP&C (Fluid Pressure and Control) is now offsetting this with its full inclusion in results. Hanon's vehicle parts order backlog grew 17.5% to US\$10.5 billion and New Energy Vehicles accounted for 60%. Its exposure to the electric vehicle segment in China and to Volkswagen's new EV platform keeps us positive on this stock. While recent delivered profits have been under pressure, the outlook remains structurally positive in our view, and the quarterly dividend level has been maintained.

KT&G reported second quarter profits that beat consensus by 9.5%. The main driver was the turnaround in affiliates and contribution from Indonesia which, since it was what we were looking for, was encouraging (though recovery in the Middle East has been delayed). The Korean tobacco market continues to shrink, though KT&G's share grew to 62.5% and export sales grew 2%. Ginseng sales grew

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5% and operating profit by 7%, driven by the launches of new health supplements. The company pays an annual dividend.

Public Bank reported a 2% drop in net profit for the first six months of the year, in line with market expectations. The reason was a decline in net interest income following Malaysia's interest rate cut in May. This pushed the bank's net interest margin 0.13% lower because the bank cannot re-price its fixed deposits until maturity. Income from fees, commissions and investment income grew 8% year on year. Cost control remains good and the ratio of costs to income stood at 34%, up from 33% last year. Loan growth was 4% while deposits grew 6%. Asset quality remains firm, with impaired loans at 0.5% of the loan book. The interim dividend grew 3%, in line with the progressive dividend policy the bank has run since 2012.

Yangzijiang Shipbuilding reported that second quarter revenue fell 12% while net profit fell 6%. The company said its order book stood at US\$3.1 billion, which would provide stable revenue for the next eighteen months. New shipping orders worldwide have halved in tonnage terms in the first half of 2019 compared to the same period last year and Yangzijiang's order wins of \$200m during the period make the full-year target of \$1.5-2 billion look ambitious. The stock has had a roller-coaster month following news that the chairman has been linked to a mainland Chinese investigation. He has stepped back from the company for the present. Since then the company has won orders for five new vessels – three of 82,000 dead weight tonnes (DWT) and two of 325,000 DWT, worth \$395 million. The change in emissions rules from the International Maritime Organisation (IMO) limiting the permitted sulphur content in shipping fuel has resulted in a surge of enquiries, according to the company, including from Japanese shipping companies.

Catcher Technology reported second quarter earnings which were 61% better than the first quarter but still left the first half overall 69% down on the same period last year. Catcher is caught in the middle of the trade dispute to some extent, but most particularly the relative weakness in iPhone sales. Catcher is major supplier of casings to Apple and had added capacity in anticipation of a surge in orders for last year's iPhone model. As we know, the launch was not a success and what we see now is operational gearing working against them. Nevertheless, one product miss does not take Apple out of the picture and we are looking toward the next round of product launches this year, a lower-priced model to come next year, and then the 5G handset cycle to kick in.

Elite Material reported second quarter revenue up 6% and net profit up 68%. The company has experienced the reverse of what has happened to Catcher. Operational leverage, which was working against Elite in 2017/18, has now turned in its favour. Gross margin expanded by 3.4% due to greater production utilisation and lower input costs. Perhaps the most important driver has been the changes in product mix. The fourth generation PCIe launch has created significant new opportunities for Elite. Standing for Peripheral Component Interconnect Express, PCIe is a technology standard and determines how expansion cards such as graphics, sound, Wi-Fi and new solid-state drives communicate with your personal computer. The new standard improves the connectivity (and speed) for each expansion slot and it requires high quality copper-clad laminates on circuit boards, which is where Elite material comes in. Newer processors from AMD and Broadcom, employing this new standard followed by Intel next year, has lifted Elite Material from the doldrums of 2018. The deployment of 5G is expected to become the next driver in 2020.

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Hon Hai Precision reported second quarter sales up 7% and net income which was down 2.5% on the same period last year, but better than consensus forecasts. The gross margin fell to 5.3% from 5.5%, suggesting that higher orders from Chinese Android phone makers such as Huawei will not substitute for Apple weakness. Therefore, like Catcher Technology, Hon Hai is sensitive to the success of Apple, but it can still help itself through tighter cost control. Hon Hai has been at the forefront of efforts to move its handset assembly lines out of China into India to avoid tariffs. This could well lead to higher operating costs and lower margins.

Largan Precision reported second quarter sales up 14% and net profit up 19% compared to the same period last year. Largan is a high-quality lens manufacturer and is supplier to the top-end smartphone makes including both Apple and Huawei. Along with Taiwan Semiconductor Manufacturing (TSMC), Largan received a rush of new orders from Huawei before temporary sanctions relief from the US expired in August. Monthly sales revenue growth has continued to be strong through July and August. The company has said that its foray into the auto parts business will end soon to maintain focus on high-end lenses (with higher margins) for cameras and for security applications such as facial recognition.

Novatek Microelectronics reported second quarter sales growth of 23% and net profit growth 34% compared to the same period last year. Growth has been driven by its touch and display driver integration chip. There were concerns earlier in the year about the impact of sanctions on Huawei and then rumours that Huawei would design these chips in-house. Both these concerns appear to have been overdone. In 2020 the expectation is that growth will be driven by display driver chips for AMOLED (Active Matrix Organic Light Emitting Diode) displays as Chinese manufacturers appear to be adopting the technology aggressively. This is a type of thin film display where organic compounds produce a luminescent material that lights up when electric current is directed to pixels. The active matrix relates to the technology which acts as a series of switches to control the current. These displays form part of the progression toward lower-power, lower-cost and larger-size display areas. For smartphones this is about producing devices that are thinner and cutting power consumption by the display to compensate for the greater power consumption by more powerful processor chips.

St Shine Optical reported much weaker second quarter results than the market had been expecting. Net income was down 35% compared to the same period last year, with gross profit margins down to 32% compared to almost 37% last year. Japan remains the dominant source of sales and accounted for 62%, followed by the US at 12% and Taiwan at 8%. There appears to be increased competition in the Japanese market with St Shine's largest customer, SEED, cutting back its growth expectations over the next eighteen months. An acceleration in orders from its US customer Hubble could offset the weakness from Japan, but until that happens operational leverage (too much production capacity, too little sales volume) will continue to work against them.

Taiwan Semiconductor Manufacturing Co (TSMC) reported second quarter sales growth of 3% and net profit decline of 7.6% compared to last year. This year the company has moved from an annual to a quarterly dividend payment and has paid NTS4.50 for the first six months of this year, compared to annual payment of NT\$8 for the full year 2018. This year was always expected to be lacklustre earnings year and so the focus is on the outlook for 2020 and the take up of TSMC's next-generation chips. Already it seems that in the fourth quarter of this year TSMC's most profitable chip capacity will be fully utilised, and in the

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recent results discussion the company indicated it could increase capital expenditure (already running at \$10-11 billion for this year) to meet the extra demand. The most efficient production node of 7 nanometres (7nm) is running at full capacity (the node refers to the density, or number of circuit layers within a chip. A 7nm node is four times as dense as 28nm). Next year TSMC is expected to produce at 5nm for Apple's 5G offering.

PTT Public Company in Thailand reported second quarter results that were in line with consensus forecasts. Net income was down 12% compared to the last quarter: oil, oil trading and refining were weaker, down around 30%, while the gas business rose 11% both on lower gas cost and on 5% volume growth. Additional expenses include an inventory loss on oil stocks as the oil price fell and a provision on labour costs following a change in Thailand's labour law giving greater benefits, which came into force on 5th May 2019.

Portfolio changes

In August we bought Infosys and sold Asustek Computer. Infosys is an Indian IT services company which provides project consulting and implementation services to companies around the world. Most of its staff are based in India. Approximately 60% of its revenue comes from US companies and 24% from Europe. The company's expertise encompasses financial services, retail communications, energy and utilities, and manufacturing enterprises. Financial services projects account for approximately one third of revenue. Indian IT services have faced headwinds from increasing costs, and staff attrition is still on the high side, but the company has been addressing these and has raised revenue to 8.5-10.5% in constant currency terms and margin guidance of 21-23% (of course, this is guidance and should not be relied upon but indicates positive management sentiment). The capital return policy has also been increased from 70% to 85% of Free Cash Flow to be made up of dividends and share buybacks.

Asustek Computer has been reorganising its business in recent years into smartphones, PCs and components businesses. We purchased the position on the basis that the company was committed to holding the dividend during the transition and that we would see expansion in the valuation but little in the way of profit growth. We have sold the position now because we do not yet see the path toward profit growth, which is the ultimate goal and which in turn would drive dividend growth. The components business continues to throw off cash, but growth would depend on the smartphone business gaining traction. Its decision to exit the mainstream smartphone business to focus on a niche strategy is understandable to us given the intensity of competition. However, we are yet to be convinced that gaming smartphones will deliver the growth we seek.

In this case the switch is driven by the negative concern that Asustek will not reach the desired goal of steady profit growth to drive dividend growth and by the positive view that Infosys is once again hitting its stride but is still trading at valuations in line with its long-run average and has, by our estimates, minimal premium priced in for future growth.

Outlook

The trade dispute seems likely now to drag on for some time. Given the low levels of trust, we think it will be a brave Chinese official who recommends to Xi Jinping that he sign a trade deal despite the risk that president Trump could walk away at any time. In this respect, the surprise imposition of additional tariffs in August has been damaging to prospects, we think, and is likely to slow proceedings. At the same time, there is increasing evidence of slower economic growth in China. So far, there have only been small moves by policymakers, but as we indicated earlier, this is likely to change. Since the month end there has been a cut to banks' required reserve ratios (the proportion of money that banks must deposit with the central bank to curb lending). This cut has released extra liquidity into the economy. We would not be surprised to see an interest rate cut in due course.

China's currency, the renminbi, weakened sharply following the imposition of additional tariffs and this prompted the US to brand China a currency manipulator. Since the end of August, the currency has strengthened from its lows against the dollar. We think that China is still not minded to embark on competitive devaluation and that the weakness is justified by market conditions. This appears to be the International Monetary Fund's (IMF) position and US efforts to enlist the IMF in support of its 'currency manipulator' position appear to have been rebuffed. For Asia, and emerging markets more broadly, a stable renminbi (being one that is looking more like a floating currency, but not being managed lower) is important for maintaining steady monetary conditions in the region.

Edmund Harriss

Mark Hammonds (portfolio managers)

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Data sources

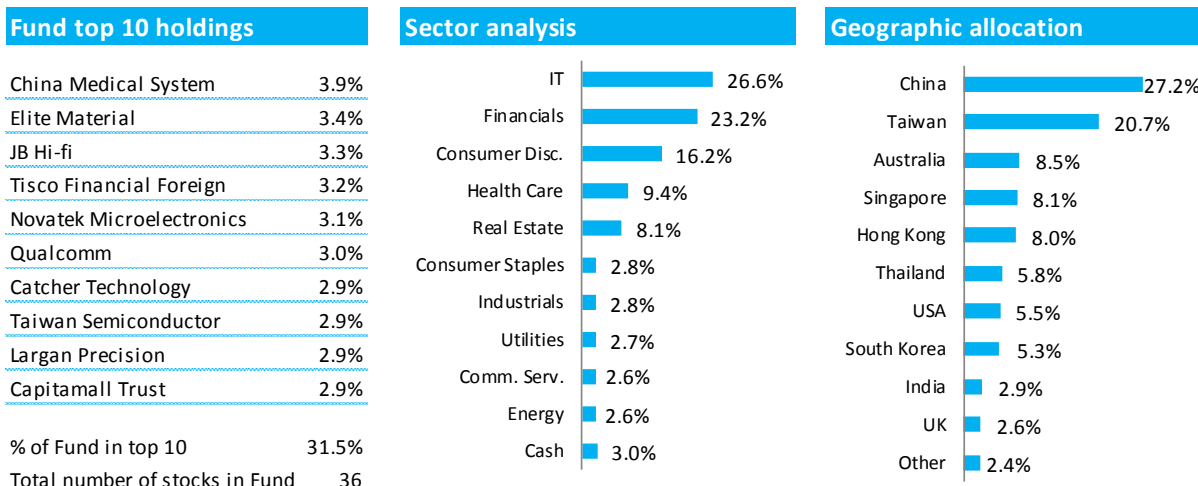
Fund performance: *Financial Express, total return*

Index and stock data: *Bloomberg*

Guinness Asian Equity Income Fund

PORTFOLIO

31/08/2019



PERFORMANCE

31/08/2019

| Discrete years % total return | Aug '15 | | Aug '16 | | Aug '17 | | Aug '18 | | Aug '19 | |
|--------------------------------|---------|-------|---------|------|---------|------|---------|-----|---------|------|
| | USD | GBP | USD | GBP | USD | GBP | USD | GBP | USD | GBP |
| Fund (Y class, 0.99% OCF) | -6.4 | 1.1 | 13.0 | 32.7 | 23.7 | 25.6 | 2.0 | 1.2 | -6.4 | -0.2 |
| MSCI AC Pacific ex Japan Index | -19.6 | -13.2 | 13.8 | 33.6 | 23.7 | 25.8 | 2.7 | 1.8 | -4.6 | 1.9 |
| IA Asia Pacific ex Japan | -16.9 | -10.3 | 12.3 | 31.8 | 21.3 | 23.3 | 2.5 | 1.6 | -3.3 | 3.3 |

| 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) | -4.6 | -4.1 | 6.8 | 11.7 | -6.4 | -0.2 | 18.1 | 26.9 | 42.5 | 91.4 |
| MSCI AC Pacific ex Japan Index | -4.5 | -4.0 | 6.6 | 11.5 | -4.6 | 1.9 | 21.3 | 30.5 | 25.7 | 68.8 |
| IA Asia Pacific ex Japan | -4.4 | -3.8 | 7.7 | 12.6 | -3.3 | 3.3 | 20.2 | 29.3 | 27.3 | 71.0 |

Annualised % total return from launch

| | USD | | GBP | |
|--------------------------------|------|--|-------|--|
| Fund (Y class, 0.99% OCF) | 6.4% | | 12.1% | |
| MSCI AC Pacific ex Japan Index | 4.1% | | 9.6% | |
| IA Asia Pacific ex Japan | 4.3% | | 9.9% | |

Risk analysis - Annualised, weekly, from launch on 19.12.2013

| | Index | | Sector | | Fund | |
|-------------------|-------|-------|--------|-------|-------|-------|
| | USD | GBP | USD | GBP | USD | GBP |
| Alpha | 0.0 | 0.0 | 0.6 | 1.3 | 3.1 | 3.7 |
| Beta | 1.0 | 1.0 | 0.9 | 0.9 | 0.8 | 0.9 |
| Information ratio | 0.0 | 0.0 | 0.1 | 0.1 | 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 | 0.0 | 0.4 | 0.1 | 0.5 | 0.2 | 0.6 |
| Tracking error | 0.0 | 0.0 | 3.6 | 3.6 | 5.7 | 5.7 |
| Volatility | 14.9 | 14.9 | 13.5 | 13.4 | 12.9 | 13.8 |

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, bid to bid, total return. Fund launch date: 19.12.2013.

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

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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