

Guinness Asian Equity Income Fund

INVESTMENT COMMENTARY – November 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 31/10/2019

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	14.3	12.5	11.7	10.3	52.6	92.9
Index	12.7	10.9	13.6	12.2	32.9	68.1
Sector	13.9	12.1	15.8	14.3	34.6	70.2

Annualised % total return from launch

	USD		GBP	
Fund	7.5%		11.8%	
Index	5.0%		9.3%	
Sector	5.2%		9.5%	

Risk analysis (annualised, weekly, from launch)

	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
Alpha	0	0.0	0.7	1.3	3.3	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	14.8	14.8	13.5	13.2	12.8	13.7
Sharpe ratio	0.1	0.4	0.1	0.5	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

- In October, Asian markets as measured by the MSCI AC Pacific ex Japan Index fell 0.9% in GBP terms but were up 1.6% in EUR and 4.0% in USD terms.
- During the month Asian markets were stronger than developed markets as measured by the MSCI World Index. Within emerging markets, Asia was better than emerging Europe, Middle East and Africa (EMEA) and Latin America as measured by the MSCI regional indices.
- The strongest market in the region was Taiwan, which rose 8.1% in USD terms as measured by MSCI Taiwan Index and is the strongest market this year. The weakest market during the month was Thailand, down 1.5% in US dollar terms. China and Hong Kong were up 4% and 4.7% respectively as measured by their MSCI Indices.
- From a sector perspective, Health Care rebounded 12.1% after a weak September, followed by the Technology and Consumer Discretionary sectors; Communication Services, Materials, Energy, Staples, Financials and Utilities all lagged.
- Leading portfolio holdings during the month included technology names AAC Technologies, which rose 23% (following a 24% rise in September), Novatek Microelectronics, Hon Hai Precision and Catcher Technology, accompanied by China Resources Gas, China Medical Systems, JB HiFi and St Shine Optical.
- Lagging names were Corporate Travel, Tisco Financial, Li & Fung, KT&G, China Mobile and Link REIT.

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Events in October

- US economic growth in the third quarter was 1.9%, compared to 2% in the second quarter, on an annualised basis. Existing home sales, retail sales manufacturing and new orders for durable goods all contracted. At the end of October, the US cut interest rates by 0.25%.
- The Reserve Bank of India delivered an expected interest rate cut of 0.25% (its fifth in a row) and cuts its growth forecast for fiscal year ending March 2020 from 6.9% to 6.1%.
- A partial trade agreement was reached between China and the US which was very limited in scope. China agreed to increase agricultural purchases to \$40-50 billion within two years and to speed up access to its financial sector. In return, the US agreed not to implement the scheduled tariff increase on October 15th (from 25% to 30% on \$250 billion of Chinese goods).
- The APEC (Asia-Pacific Economic Co-operation) summit scheduled for November has been cancelled due to unrest in Chile. If China and the US do manage to strike a (Phase 1) trade deal, they will now have to look for somewhere else to sign it. This is a genuine issue, since President Trump has stated his wish to sign in the US, while China is more cautious about appearances.

Portfolio Changes

We have been obliged to sell Infosys after a very short holding period. This follows a whistle-blower complaint to both the Indian Stock Exchange and the US SEC alleging pressure tactics from the CEO to overstate revenues, understate costs and withhold selected information from Board and auditors. Infosys has had corporate governance issues in the recent past. We took the view that management changes a couple of years ago would allow the company to move on and rebuild commercial momentum. While the allegations are unproven, they appear to be supported with evidence, and this is likely drag on.

We have replaced Infosys with Tech Mahindra (TechM). The company does not have the same international brand recognition as Infosys and Tata Consulting, but what makes it interesting is its heavier exposure to telecoms. The telecom industry has been in the doldrums for five years and is one of the worst-performing sectors globally. This is in part because the growth related to 3G and 4G has dissipated for the telecom providers, who overpaid for spectrum in the first place. We believe the dynamics for this industry are about to change with the advent of 5G, which is based on different technology, requiring different hardware and with wider application than just smartphones. These elements provide an opportunity for the technology consulting companies and TechM has the biggest presence of the Indian consultants. It will take time for this area to ramp up, but TechM recently secured a US\$1bn contract from AT&T (a long-standing customer). As network providers and 5G users increase capex we believe TechM is well placed.

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Outlook

Consensus forecasts for 2019 earnings have also picked up over the past month, with estimates for Asia as measured by the MSCI AC Pacific ex Japan Index (the Fund's benchmark for comparison purposes) rising 0.7%. The estimates for the Fund have increased 2.1% over the same period, led by Chinese and Taiwanese names. The portfolio is trading on 12.8x consensus estimated earnings for 2019, putting the Fund on a 13.5% discount to the valuation of the Index.

Edmund Harriss

Mark Hammonds (portfolio managers)

Sharukh Malik (analyst)

Data sources

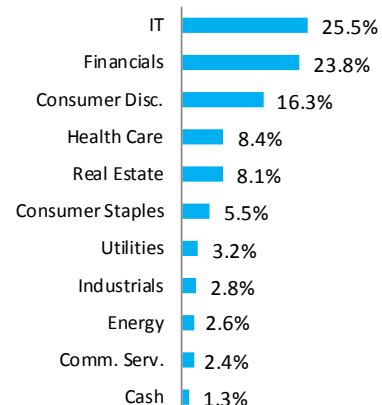
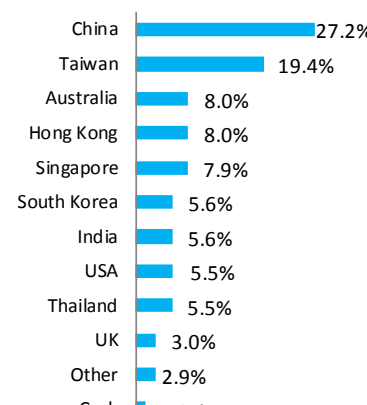
Fund performance: *Financial Express, total return*

Index and stock data: *Bloomberg*

Guinness Asian Equity Income Fund

PORTFOLIO

31/10/2019

Fund top 10 holdings	Sector analysis	Geographic allocation																																																																								
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PERFORMANCE

31/10/2019

Discrete years % total return	Oct '15		Oct '16		Oct '17		Oct '18		Oct '19	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Fund (Y class, 0.99% OCF)	0.0	3.7	6.1	34.8	27.3	16.3	-10.2	-6.6	11.7	10.3
MSCI AC Pacific ex Japan Index	-10.7	-7.5	8.3	36.9	28.2	17.8	-12.0	-8.6	13.6	12.2
IA Asia Pacific ex Japan	-8.6	-5.3	6.7	34.9	26.5	16.3	-13.2	-9.8	15.8	14.3

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)	4.1	-0.9	14.3	12.5	11.7	10.3	27.7	19.8	52.6	92.9
MSCI AC Pacific ex Japan Index	4.0	-0.9	12.7	10.9	13.6	12.2	28.0	20.8	32.9	68.1
IA Asia Pacific ex Japan	3.8	-1.1	13.9	12.1	15.8	14.3	27.2	20.0	34.6	70.2

Annualised % total return from launch

	USD		GBP	
Fund (Y class, 0.99% OCF)	7.5%		11.8%	
MSCI AC Pacific ex Japan Index	5.0%		9.3%	
IA Asia Pacific ex Japan	5.2%		9.5%	

Risk analysis - Annualised, weekly, from launch on 19.12.2013

31/10/2019	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
Alpha	0.0	0.0	0.7	1.3	3.3	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	0.1	0.4	0.1	0.5	0.3	0.6
Tracking error	0.0	0.0	3.6	3.6	5.7	5.7
Volatility	14.8	14.8	13.5	13.2	12.8	13.7

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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, 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, 18 Smith Square, London SW1P 3HZ.

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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