

Guinness Asian Equity Income Fund

INVESTMENT COMMENTARY – December 2019

Launch date 19.12.2013

Team
Edmund Harriss (manager)
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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 30/11/2019

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	15.2	13.5	10.8	9.3	53.8	94.5
Index	13.3	11.5	9.8	8.3	33.6	69.0
Sector	14.4	12.6	11.3	9.7	35.2	71.1

Annualised % total return from launch

	USD		GBP	
Fund	7.5%		11.8%	
Index	5.0%		9.2%	
Sector	5.2%		9.4%	

Risk analysis (annualised, weekly, from launch)

	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
Alpha	0	0.0	0.7	1.3	3.4	3.8
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	14.7	14.8	13.4	13.2	12.8	13.8
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

- Asian markets as measured by the MSCI AC Pacific ex Japan Index rose 0.6% in GBP terms (up 1.7% in EUR and 0.6% in USD terms).
- Asian markets were weaker than developed markets, as measured by the MSCI World Index, but were ahead of other Emerging EMEA and Latin America.
- The strongest markets were New Zealand, China and Taiwan, whilst the weakest were the Philippines, Indonesia and Malaysia.
- The strongest sectors were Consumer Discretionary, Materials and Health Care whilst the weakest were Utilities, Financials and Industrials.
- Gains in the fund were led by Corporate Travel Management and Janus Henderson, as well as companies in the smartphone supply chain like Novatek Microelectronics, Hon Hai Precision and AAC Technologies.
- Weaker names in the Fund were Hanon Systems, China Resources Gas and China Mobile.

Events in November

- The US and China remain engaged in trade negotiations. It seems China is pushing the US to remove some existing tariffs in order for a 'Phase One' deal to be reached. President Trump surprised everyone by saying he likes the "idea of waiting until after the election for the China deal". Given his history of making off-the-cuff comments it is debatable as to whether this was intended to increase pressure on the Chinese to reach a deal, or a genuine reflection of his intentions.

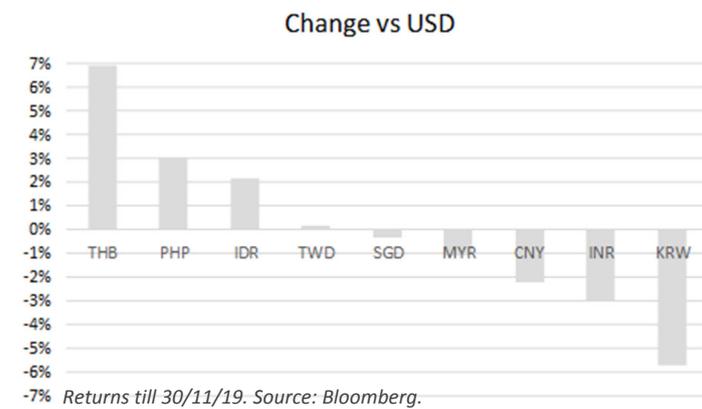
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- MSCI increased the inclusion factor of A-shares from 15% to 20%, which means MSCI will now include 20% of A-shares' free float market capitalisation in its calculations. MSCI also added 189 A-share mid-caps to its China index. It is estimated that as a result of these decisions, c.\$43bn of passive flows is likely to be invested A-shares. However, MSCI will not increase the inclusion factor further until access to hedging instruments is improved and progress is made over the short settlement cycle and mismatch between onshore and Stock Connect market holidays.
- Huawei's latest phones shows it is quickly reducing its reliance on American suppliers, following the USA's move to put the company on its Entity List, severely restricting what American companies can export to Huawei. Huawei claims its 5G base stations now do not use any American components and it is planning to rapidly increase production of these products. Looking at its latest smartphones reveals that Huawei is diversifying its suppliers, with American firms losing market share to Taiwanese, Japanese and Dutch firms in key components.
- In Taiwan, the manufacturing PMI was flat at 49.8 in November vs the average of 48.7 in the third quarter and 47.4 in the second quarter. This level still indicates marginally contracting activity but is the second-highest reading of PMI since September 2018. Taiwan's exposure to exports does mean it is, to a degree, dependent on global economic activity and here the data is still weak as Taiwan's exports fell 2% in in October. However, perhaps because businesses are diversifying away from China in light of the trade dispute, Taiwanese economic growth is holding up better than other export-oriented countries such as Korea and Singapore.
- In Hong Kong, the ongoing protests are leading to very weak economic data. Arrivals from China fell 46% in October. Retail sales, by value, fell 24% in October, meaning retail sales have fallen for four months in a row and this is very likely to continue in the November numbers.
- In India, Moody's downgraded the country's outlook from stable to negative. GDP growth in the third quarter was 4.5%, meeting expectations, but lower than the 5.0% rate seen in the second quarter.

Market Update

The Thai baht has been noticeably strong this year, appreciating 6.9% against the dollar, well ahead of its regional peers:



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The strength of the baht has been one of the reasons why the Bank of Thailand cut interest rates by 0.25% in August and by the same amount in November, to 1.25%, a level last seen during the global financial crisis. The central bank also recently introduced new measures to encourage capital outflows to reduce pressure on the baht:

- Exporters will be allowed to keep more of their proceeds abroad. Exporters with proceeds above the higher threshold can use the revenues to offset foreign currency expenses.
- Retail investors will now be allowed to invest up to \$200,000 in foreign securities without having to go through an intermediary institution. Criteria in terms of asset ownership have been relaxed.
- When transferring money abroad, the threshold for providing documentation has been raised from \$50,000 to \$200,000.

Thailand is, and has been for some time, viewed as a source of relative stability in Asia and the broader emerging market universe. This marks quite the turnaround since the 1990s, when Thailand was the trigger for the start of the Asian Financial Crisis.

Portfolio update

Novatek Microelectronics' results came in line with expectations. Inventory of TV drivers is likely to continue falling for the next six months and so demand is likely to be weak. Novatek is, however, making good progress with its Touch & Display Driver Integration (TDDI) product and we expect rising adoption by smartphones. Management also point to rising OLED driver demand and expects shipments in the first half of 2020 to be greater than all of 2019.

In China, the National Healthcare Security Administration (NHSA) revealed the latest National Reimbursement Drug List (NDRL), which lists the drugs the state will pay for. Over the past two years, the government has started requesting aggressive price cuts in exchange for greater volumes for those drugs that make the list. China Medical System's Xinhuosu (used to treat breathing difficulties) remained on the list with a comparatively low price cut of 23%.

Our quality universe of companies which have generated a persistent return on capital does not yield any of the large smartphone manufacturers. Our universe does, however, yield many companies which are suppliers to smartphone manufacturers and which specialise in a certain field of expertise. The ongoing launch of 5G around the world, is likely to benefit several of the portfolio's suppliers. Elite Material, a supplier of copper-clad laminates to both Huawei and Apple, expects rising demand for its products for 5G base stations and mobile phones. Catcher Technology expects average selling prices to increase for its casings for 5G phones due to the need for better heat dissipation. Tech Mahindra, a consultant, is likely to be involved in the design and build out of 5G networks in Europe and the US with customers such as AT&T and BT. 5G is also expected to drive replacement demand for smartphones, which should lead to greater volumes for the likes of AAC Technologies (manufacturer of speakers and haptics) and Largan Precision (manufacturer of lenses).

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Outlook

The portfolio trades on 12.9x consensus estimated earnings for 2019 putting the fund at a 12% discount to the valuation of the Index. We think the portfolio has good exposure to a quality set of companies in both developed and developing economies within the Asia Pacific region. All eyes are now looking towards the 15th December, when the US is due to introduce tariffs on \$160bn of Chinese imports unless a deal can be reached. There are different voices within the US administration, some suggesting that tariffs will go into effect if no deal is reached, while others suggest the date can be shifted into 2020. We continue to focus on the companies in the portfolio and their ability to maintain their competitive positioning.

Following on from the earlier discussion on Thailand's cut in interest rates, we would also like to point out that most Asian economies have positive real interest rates and so have the room to stimulate economic growth with conventional monetary policy, i.e. by cutting rates. This is in stark contrast to developed economies, many of which have negative real rates and so do not have the room to boost growth with conventional monetary policy. Asia remains an attractive place to invest, underpinned by the ability to support growth with sensible and conventional monetary and fiscal policy.

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Data sources

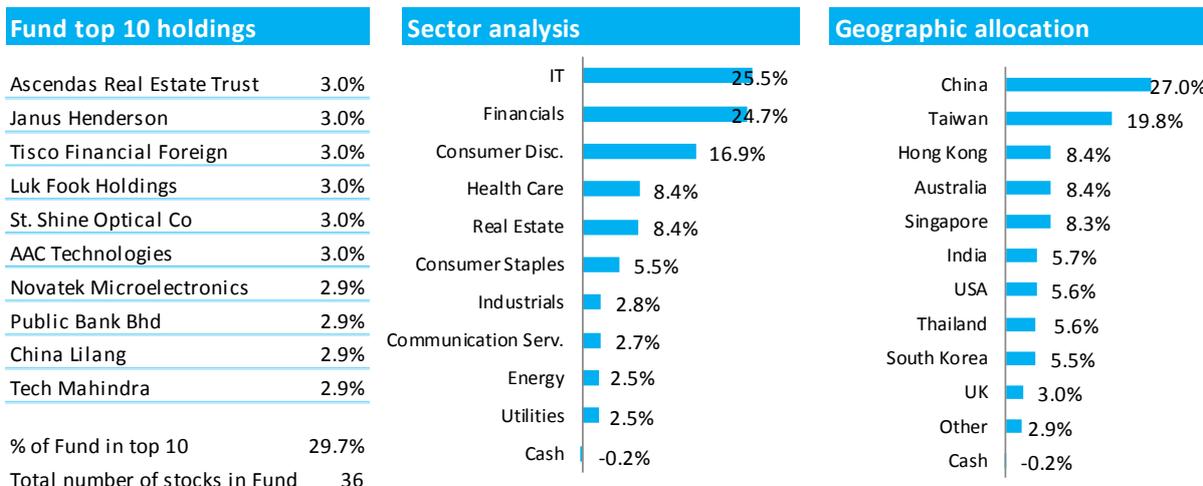
Fund performance: *Financial Express, total return*

Index and stock data: *Bloomberg*

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30/11/2019



PERFORMANCE

30/11/2019

Discrete years % total return	Nov '15		Nov '16		Nov '17		Nov '18		Nov '19	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Fund (Y class, 0.99% OCF)	-3.8	0.1	5.8	27.4	34.6	24.1	-11.4	-6.0	10.8	9.3
MSCI AC Pacific ex Japan Index	-11.4	-7.8	8.9	31.1	31.4	21.3	-9.2	-3.7	9.8	8.3
IA Asia Pacific ex Japan	-10.0	-6.4	6.4	28.1	31.9	21.8	-10.6	-5.1	11.3	9.7

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)	0.8	0.8	15.2	13.5	10.8	9.3	32.1	27.5	53.8	94.5
MSCI AC Pacific ex Japan Index	0.5	0.6	13.3	11.5	9.8	8.3	31.0	26.5	33.6	69.0
IA Asia Pacific ex Japan	0.5	0.5	14.4	12.6	11.3	9.7	31.3	26.8	35.2	71.1

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%		9.2%	
IA Asia Pacific ex Japan	5.2%		9.4%	

Risk analysis - Annualised, weekly, from launch on 19.12.2013

30/11/2019	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
Alpha	0.0	0.0	0.7	1.3	3.4	3.8
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	14.7	14.8	13.4	13.2	12.8	13.8

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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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