

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 31/01/2020

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

	2017		2018		2019	
	USD	GBP	USD	GBP	USD	GBP
Fund	36.5	24.6	-15.5	-10.3	19.0	14.4
Index	37.3	25.4	-14.5	-9.2	20.3	15.7
Sector	37.2	25.3	-15.1	-9.8	20.4	15.8

	YTD		1 year		From launch	
	USD	GBP	USD	GBP	USD	GBP
Fund	-4.9	-4.5	5.8	5.5	51.0	87.4
Index	-4.0	-3.5	6.8	6.6	36.2	69.1
Sector	-3.7	-3.2	8.1	7.8	37.1	70.2

Annualised % total return from launch

	USD		GBP	
	Return	Index	Return	Index
Fund	7.0%	5.2%	10.8%	9.0%
Index				
Sector		5.3%		9.1%

Risk analysis (annualised, weekly, from launch)

	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
Alpha	0	0.0	0.6	1.1	2.7	3.0
Beta	1	1.0	0.9	0.9	0.8	0.9
Info ratio	0	0.0	0.0	0.0	0.3	0.3
Max drwn	-29.3	-26.4	-26.7	-24.5	-24.3	-20.6
Tracking err	0	0.0	3.5	3.5	5.7	5.6
Volatility	14.8	14.9	13.5	13.4	12.9	14.0
Sharpe ratio	0.1	0.4	0.1	0.4	0.3	0.5

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 MSCI AC Pacific ex Japan Index fell 3.5% in GBP terms in January (-2.7% in EUR and -4.0% in USD terms).
 - In the first two weeks of February (to 14 Feb 2020), Asian markets have rebounded +6.0% in GBP (+7.1% in EUR/+4.6% in USD).
 - The most defensive markets during the month were Australia, New Zealand and India, while the weakest were Thailand and the Philippines. The North Asian markets of China, Hong Kong, Taiwan and Singapore moved in line with the regional benchmark.
 - In February the North Asian markets led the rebound. Thailand remains weak because its high (70%) economic dependence on export manufacturing and tourism leave it more vulnerable than most.
 - The weakest sectors in January were Energy, Real Estate, Industrials, Materials and Financials. The Technology sector overall held up well, but this obscures the divergence in performance between technology manufacturers and services businesses.
- ## Events in January
- Coronavirus dominated headlines and markets from mid-January to the time of writing (mid-February).
 - We have treated the figures coming from Hubei/Wuhan with some scepticism: we believe the number of cases there to be far higher than reported.
 - To gain a sense of the spread of the virus and a measure of its threat to life, we have focused

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on data from China ex-Hubei. At the time of writing (17 Feb) in China ex Hubei:

- 12,371 confirmed cases
 - 74 deaths
 - 4,576 recovered
- It is worth recalling that according to Public Health England, over the last five years an average of 17,000 people have died in the UK each year from flu or flu-related complications.

Market Update

Asian markets began the year well, rising on a continuation of the trend from December last year. Optimism was deflated, however, as the scale of the Coronavirus outbreak became clear.

China, as expected, was weak, falling 4.8% in the month. (The figure is flattered by the closure of markets in the last week of January for Chinese New Year.) The impact of the Coronavirus outbreak took some time to become clear, after the first reported death was on 11 January. A market in Wuhan was identified as the possible source of the outbreak.

Unprecedented measures were put in place to tackle the virus, with a ban on travel to and from Wuhan imposed from 23 January. A global health emergency was declared by the WHO on 30 January. The outbreak came at a particularly difficult time in that the large-scale response coincided with Chinese New Year, when millions of citizens were displaced by holiday travel. The holiday was extended, and workers began to make a slow return to back work in mid-February.

South East Asian countries were also weak in the wake of the virus, both on concerns over its economic impact and fears it would spread more widely. Thailand fell 8.6% on worry that the country's tourism industry would be impacted severely.

Prior to the outbreak becoming apparent, the market mood was relatively buoyant. The much-anticipated US-China trade deal was finally signed (in a lengthy ceremony in Washington DC), and its provisions were disseminated. The scope of the deal is perhaps more comprehensive than we initially expected, but this goes some way to removing a degree of uncertainty from the market. A key point, however, to be confirmed was that the issues not resolved by the 'phase one' agreement would be deferred until after the election. This gives markets a chance to pause from the gyrations that were persisting in the run up to the phase one deal.

Outlook

For now, attention is focussed on the Coronavirus: how well will the disease be contained in China, and will the virus spread outside of the region? Our base expectation is that the disease is not wholly different from other outbreaks we have seen in the region before (such as SARS). We continue to monitor the number of new cases as the situation evolves.

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Guinness Asian Equity Income Fund

Otherwise, the focus is on the earnings outlook. Market multiples expanded in 2019 partly on the expectation of better earnings growth this year versus last, and that is reflected in forecasts for earnings growth in 2020 and 2021. It is obviously early in the year to be assessing 2020's prospects fully (not least because companies are just about to release their 2019 earnings), but we will look closely at managements' guidance and outlooks comments for 2020 over the reporting season.

Clearly, there will be some impact from the virus on earnings, although at present there have been minimal revisions to 2020 earnings forecasts as it is too early to assess the full scale of disruption. To some extent – particularly for companies manufacturing products rather than delivering services – we expect shortfall in demand in the first quarter to be offset by much higher demand in the second quarter. In the longer term, we do *not* expect the economic impact to be considerable. Again, the situation is dynamic, and we will monitor events as they unfold.

Edmund Harriss

Mark Hammonds (portfolio managers)

Sharukh Malik (analyst)

Data sources

Fund performance: *Financial Express, total return*

Index and stock data: *Bloomberg*

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PORTFOLIO

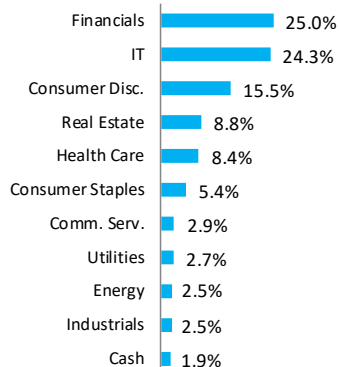
31/01/2020

Fund top 10 holdings

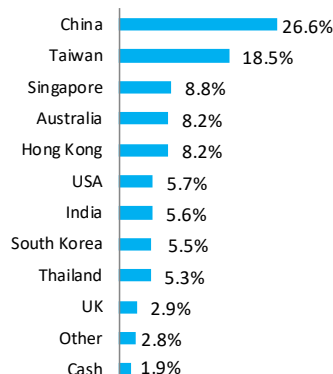
Sonic Healthcare	3.1%
Tech Mahindra	3.0%
Janus Henderson	2.9%
DBS Group Holdings	2.9%
Link REIT	2.9%
China Mobile	2.9%
Capitamall Trust	2.9%
Ascendas Real Estate Trust	2.9%
Luk Fook Holdings	2.9%
Aflac	2.9%

% of Fund in top 10 29.4%
Total number of stocks in Fund 36

Sector analysis



Geographic allocation



PERFORMANCE

31/01/2020

Discrete years % total return

	Jan '16		Jan '17		Jan '18		Jan '19		Jan '20	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Fund (Y class, 0.99% OCF)	-10.9	-5.7	19.8	35.0	36.6	20.8	-13.7	-6.7	5.8	5.5
MSCI AC Pacific ex Japan Index	-17.6	-12.8	23.6	39.3	38.3	22.4	-13.6	-6.6	6.8	6.6
IA Asia Pacific ex Japan	-17.3	-12.4	22.3	37.9	37.1	21.3	-14.3	-7.4	8.1	7.8

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)	-4.9	-4.5	-4.9	-4.5	5.8	5.5	24.7	19.0	51.0	87.4
MSCI AC Pacific ex Japan Index	-4.0	-3.5	-4.0	-3.5	6.8	6.6	27.7	21.8	36.2	69.1
IA Asia Pacific ex Japan	-3.7	-3.2	-3.7	-3.2	8.1	7.8	26.9	21.1	37.1	70.2

Annualised % total return from launch

	USD		GBP	
Fund (Y class, 0.99% OCF)	7.0%		10.8%	
MSCI AC Pacific ex Japan Index	5.2%		9.0%	
IA Asia Pacific ex Japan	5.3%		9.1%	

Risk analysis - Annualised, weekly, from launch on 19.12.2013

31/01/2020	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
Alpha	0.0	0.0	0.6	1.1	2.7	3.0
Beta	1.0	1.0	0.9	0.9	0.8	0.9
Information ratio	0.0	0.0	0.0	0.0	0.3	0.3
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	0.5
Tracking error	0.0	0.0	3.5	3.5	5.7	5.6
Volatility	14.8	14.9	13.5	13.4	12.9	14.0

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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

This is an advertising document. 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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