

Guinness Asian Equity Income Fund

INVESTMENT COMMENTARY – September 2020

Launch date 19.12.2013

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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 (in GBP) 31/08/2020

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

	2019	2018	2017
Fund	14.4	-10.3	24.6
Index	15.7	-9.2	25.1
Sector	15.8	-9.8	25.3

	YTD	1 year	From launch
Fund	-6.4	-4.1	83.5
Index	5.0	9.0	84.0
Sector	4.8	7.8	84.4

Annualised % total return from launch (GBP)

Fund	9.5%
Index	9.5%
Sector	9.6%

Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0	0.8	1.1
Beta	1	0.9	0.9
Info ratio	0	0.0	0.0
Max drwn	-26.4	-24.5	-24.8
Tracking err	0	3.6	5.9
Volatility	15.3	14.1	14.7
Sharpe ratio	0.4	0.4	0.4

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. Returns for share classes with a different OCF will vary accordingly.

Source: Financial Express, Y class 0.99%, bid to bid, total return.



Fund & Market

- In August, the Fund rose 3.5% (Class Y, in GBP) compared to the market which rose 1.8% as measured by MSCI AC Pacific ex Japan Net Total return Index.
- Outperformance was driven by a rebound in Corporate Travel Management and was well supported by strong performances from Shenzhou International, Hanon Systems, Suofeiya Home Collection, Inner Mongolia Yili, JB Hi-Fi, Qualcomm and Tech Mahindra.
- Weaker performances came from technology names Novatek Microelectronics, Largan Precision and Catcher Technology. Thai energy stock PTT, Ascendas Real Estate Investment Trust (REIT) and China Resources Gas also lagged.
- The Consumer Discretionary sector (which accounts for 17% of the benchmark) was the best-performing area by far, rising 11.4% in GBP terms. The next strongest group was Materials, which rose 2.9%. Technology (which accounts for 18% of the Index) was the weakest segment, falling 3.9% in GBP terms.
- The best-performing markets during the month were China, Hong Kong and India, while Thailand and Malaysia were notably weaker. Taiwan, with a 70% weight in Technology, was also an underperformer.

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Events in August

- Chinese economic data continue to improve: manufacturing confidence, exports and industrial profitability all indicated record expansion, building on the positive GDP growth recorded in the second quarter of the year. Industrial profits grew over 19% in July compared to July last year, making it the third consecutive month of positive annual growth.
- Taiwan's technology sector is looking solid with export orders and manufacturing confidence in expansion territory. This contrasts with the (smaller) domestic sector, which still shows weakness.
- Signs of recovery are also evident in Singapore, where June retail sales were up 51% compared to May's number, which in its turn was down 21% compared to April.
- Relations between China and the US continue to oscillate. Both sides reaffirmed their commitment to the Phase 1 trade deal, but we also saw Bytedance ordered to sell TikTok's US operations and the addition to the US's Entity List of 38 companies linked to Huawei, barring any companies using US hardware or software from dealing with them.
- Australia is weighed by a resurgence in COVID cases in the State of Victoria, which the central bank reports is likely to have a significant impact on economic recovery.
- Tensions between China and India along the border rose again. In September China and India have agreed to a rapid de-escalation and disengagement of troops.

Market and Stocks review

The Fund had a good month in August and outpaced the market. Corporate Travel Management, to which we had added on weakness in July, was the best performer, rising over 80%. We were also pleased to see strong performance from stocks that we have added over the course of the year, namely Shenzhou International and China A-shares Suofeiya Home Collection and Inner Mongolia Yili Industrial (a dairy business). We are pleased also to see Tech Mahindra's share price rally; we commented earlier this year on what we see as the disconnect between the company's new order wins and poor share price performance. The sharp recovery in Hanon's share price reflects, we believe, a greater focus on the electric vehicle business and a willingness to look through the weaker second-quarter results that were in line with expectations.

The Technology sector had a weaker month. Further US restrictions on Huawei affected a number of stocks that supply the company including Novatek Microelectronics, which was the Fund's weakest performer this month. The stock is still one of our best performers this year, and while the company is indeed exposed to Huawei, it is by no means lacking other customers. Following on from moves to force the sale of TikTok's US operations, Tencent's WeChat business also came under threat, leading to concerns of possible retaliation against Apple which was reflected in weakness among the Apple supply chain. For the Fund this was felt by Largan Precision and to a lesser extent by Hon Hai Precision.

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China's economic performance continues to impress, with exports growing since April and manufacturing confidence as measured by the Purchasing Managers Indices (PMI) pointing to expansion. Economic policy is certainly focused on supporting growth, as it is almost everywhere else, but the picture is reassuringly 'normal'. There are no negative interest rates here; a 10-year China government bond yields 3%. In a recent speech by the Chairman of the China Banking and Insurance Regulatory Commission it was put that China "values very much the normal monetary and fiscal policies we are practising now. We will not flood the economy with liquidity, still less employ deficit monetisation or negative interest rates." (Quoted by *Merryn Somerset Webb, Financial Times, 11 Sept 2020.*)

In August, 22 of the Fund's 36 holdings reported results. Of these companies, 12 distribute interim dividends, the rest make annual distributions. Seven companies maintained or increased their dividends: China Medical Systems, China Mobile, China Resources Gas, JB Hi-Fi, Ping An Insurance, Shenzhou International and Sonic Healthcare. Dividends fell for five companies: BOC Hong Kong, China Lilang, Corporate Travel Management, DBS and Public Bank.

Outlook

Consensus earnings estimates revisions (as recorded by Bloomberg) since the end of June, for the next twelve months (FY1) have been revised higher in Australia, China, Korea and Taiwan. On a sector basis, the most significant upgrades to FY1 forecasts have been in the Health Care, Materials and Technology sectors, which account for 6%, 6% and 18% of the benchmark respectively. The weakest sector by far is Industrials, which accounts for 5% of the benchmark index. Upward revisions in Materials and Technology lie behind the improvements in forecasts for Australia and Taiwan in particular. Estimates for two years' time (FY2) are positive for the same group of countries and also for India. The sector picture for upward revisions in FY2 appears to be more broad-based, with only Industrials and Utilities seeing further downgrades.

In the past month earnings forecasts for the market as measured by MSCI Asia Pacific ex Japan Index are 0.3% higher for FY1 and 0.6% higher for FY2. Earnings estimates for the Fund over the same period have risen 0.3% in FY1 and 0.1% in FY2. Among the portfolio holdings, in respect of revisions to earnings forecasts, the market consensus in August has been most positive for Inner Mongolia Yili, JB Hi-Fi, Hanon Systems, Sonic Healthcare, Netease, Shenzhou and Novatek Microelectronics. The market consensus remains negative for earnings from Corporate Travel, St Shine Optical and Catcher Technology. Current earnings growth forecasts for the portfolio based on consensus estimates are for a contraction of 6.6% in FY1 and for growth of 14.7% in FY2 and 10.3% in FY3. (*Earnings estimates and revisions are based on consensus data gathered by Bloomberg. Data for the market, countries and sectors refer to the relevant MSCI regional, country and sector indices. These figures are current estimates and are all subject to change.*)

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Data sources

Fund performance: *Financial Express, total return, in GBP*

Index and stock data: *Bloomberg*

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Guinness Asian Equity Income Fund

PORTFOLIO

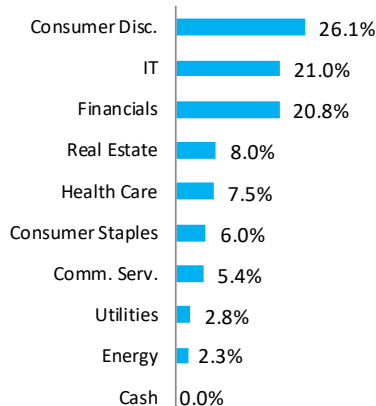
31/08/2020

Fund top 10 holdings

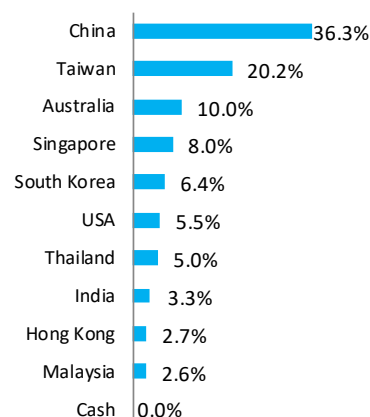
Corporate Travel Management	4.5%
Hanon Systems	3.7%
Shenzhou International	3.4%
Inner Mongolia Yili Industrial	3.3%
Zhejiang Supor	3.3%
Tech Mahindra	3.3%
Elite Material	3.1%
JB Hi-fi	3.0%
Qualcomm	3.0%
Suofeiya Home Collection	2.9%

% of Fund in top 10 33.4%
 Total number of stocks in Fund 36

Sector analysis



Geographic allocation



PERFORMANCE

31/08/2020

Discrete years % total return (GBP)

	Aug '20	Aug '19	Aug '18	Aug '17	Aug '16
Fund (Y class, 0.99% OCF)	-4.1	-0.2	1.2	25.6	32.7
MSCI AC Pacific ex Japan Index	9.0	1.9	1.8	25.8	33.6
IA Asia Pacific ex Japan	7.8	3.3	1.6	23.3	31.8

Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	From launch
Fund (Y class, 0.99% OCF)	3.5	-6.4	-4.1	-3.1	83.5
MSCI AC Pacific ex Japan Index	1.8	5.0	9.0	13.0	84.0
IA Asia Pacific ex Japan	3.2	4.8	7.8	13.1	84.4

Annualised % total return from launch (GBP)

Fund (Y class, 0.99% OCF)	9.5%
MSCI AC Pacific ex Japan Index	9.5%
IA Asia Pacific ex Japan	9.6%

Risk analysis - Annualised, weekly, from launch on 19.12.2013, in GBP

31/08/2020	Index	Sector	Fund
Alpha	0	0.81	1.13
Beta	1	0.89	0.88
Information ratio	0	-0.03	0.00
Maximum drawdown	-26.36	-24.54	-24.84
R squared	1	0.95	0.85
Sharpe ratio	0.41	0.43	0.42
Tracking error	0	3.55	5.94
Volatility	15.31	14.05	14.65

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Source: Financial Express, bid to bid, total return (Y Class, 0.99% OCF). Fund launch date: 19.12.2013. Fund returns are for share classes with a current Ongoing Charges Figure (OCF) stated above; returns for share classes with a different OCF will vary accordingly.

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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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