Guinness Asian Equity Income Fund

INVESTMENT COMMENTARY – November 2020

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 (in GBP)

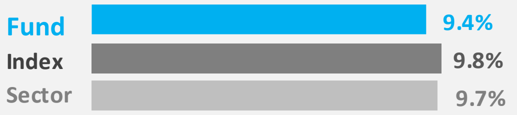
31/10/2020

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	24.7
Index	14.6	-8.6	25.1
Sector	15.8	-9.8	25.3

	YTD	1 year	From launch
Fund	-5.6	-4.0	85.2
Index	7.8	11.9	90.3
Sector	7.6	11.2	89.3

Annualised % total return from launch (GBP)



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0	0.7	0.7
Beta	1	0.9	0.9
Info ratio	0	0.0	-0.1
Max drwdn	-26.3	-24.5	-24.8
Tracking err	0	3.2	5.9
Volatility	15.0	14.0	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.

ELITE RATED by FundCalibre.com ™

Fund & Market

- In October, the Fund fell 0.3% in GBP (Class Y shares) compared to the market which rose 2.4% as measured by MSCI AC Pacific ex Japan net total return Index.
- The Fund sold off in the last week of October, reflecting a sharp divergence between Value and Growth as a second round of COVID-related lockdowns was imposed.
- Since the last week of October, we have had a US election and positive COVID vaccine news, and market sentiment now looks very different.
- Company news from our portfolio companies has been significantly less volatile and has consistently painted an improving picture.
- Over the past month we have seen a significant pick-up in consensus earnings estimates for both the market and the Fund. Leading the changes in expectations are Australia, Korea and Taiwan in the Consumer Discretionary, Financials, Materials and Technology areas.
- In the year to October, Growth, as measured by the MSCI AC Asia Growth net total return Index, has risen 23.6% in GBP while the Value equivalent has fallen 7.3% - opening up, in our view, a significant opportunity as the Trump/COVID era moves towards a conclusion.

Events over the month

- The US presidential election has been called for Biden, although America's unique system means the formal result is confirmed by Congress on January 6th. In normal times this detail would not register, but little about this presidency has been normal.

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.

- The appearance of a ‘blue wave’, which was expected to sweep both houses of Congress, did not materialise and this is likely therefore to constrain policymaking.

- Pfizer and German company BioNTech reported startlingly good results from their vaccine trial (of c.43,000 volunteers) causing markets to surge. It is worth remembering that its safety, as well as reported efficacy, will now come into focus. Rapid approval followed by reports of adverse side effects would be a severe set-back.

- China’s economic growth in the third quarter was reported to have been 4.9% year-on-year. This was a little below expectations but does not change the market’s expectation for c.2% growth for the full year.

- The Communist Party of China (CPC) released some details of its next Five-Year Plan. The summary communiqué did not mention a target goal for GDP growth and instead emphasised higher-quality growth, innovation, market reform, domestic demand and final liberalisation. Discussions also included environmental protection, a target for peak carbon emissions by 2030 and carbon neutrality by 2060.

- The Chinese yuan appreciated a further 1.3% against the dollar. The Korean won (also a trade-sensitive currency) appreciated 2.5% in October.

- The Thai government imposed a state of emergency in response to protestors who have turned their ire onto the Prime Minister. By contrast, the King has made conciliatory statements toward the protestors.

Market & Fund Review

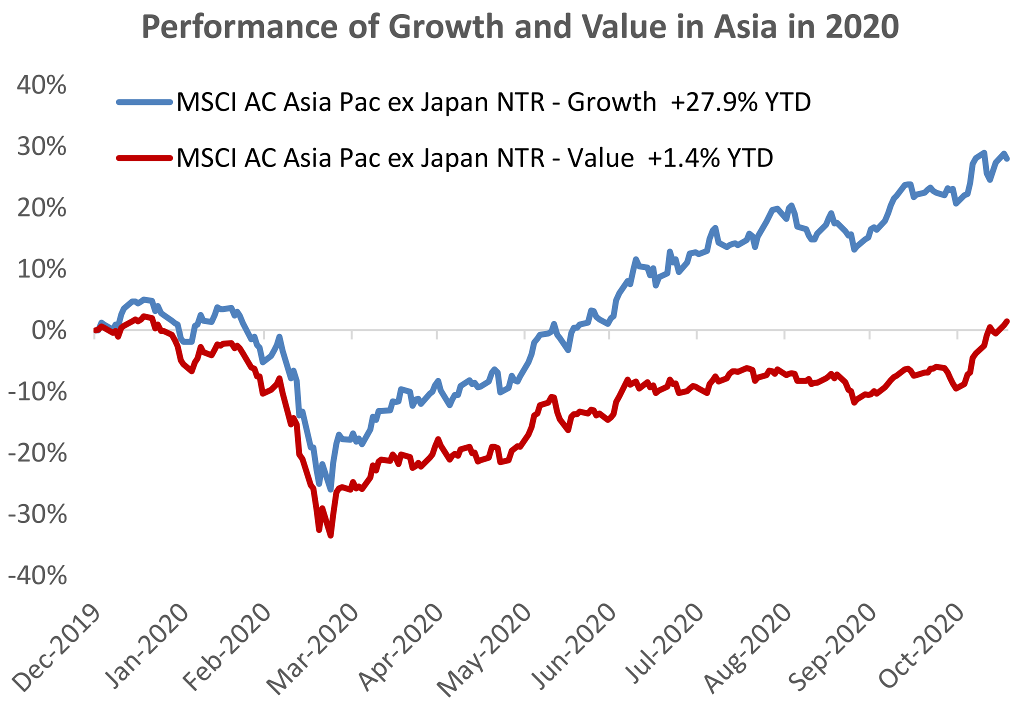
In October the Asia Pacific region, as measured by the MSCI AC Pacific ex Japan net return Index, rose 2.4% in GBP terms (2.4% in USD terms). However, there was a significant change in market movement and sentiment in the last week of the month. Up to that point Asia markets had moved up strongly with both Growth and Value stocks (as measured by MSCI Asia Pacific ex Japan Growth and Value Indices) moving in line, but in the last week of the month it became apparent that the rise in COVID cases was gaining momentum and that new lockdowns were imminent. Asian markets fell, with Value stocks being the hardest hit, and the Fund ended the month behind the Index.

As we know, November has brought about a change once again with announcements from Pfizer and Moderna that their COVID vaccines appear highly effective and with the result (still contested by some) of the US presidential election. Market reaction has meant that as at the time of writing, the Fund has recouped its relative underperformance in October and is now ahead of its benchmark so far this quarter.

This sharp change in market reaction - this rotation from Growth to Value - is a reminder of just how lopsided the market has become. Market focus has been on ‘stay-at-home’ stocks in Technology and Health Care while large swathes of Consumer Discretionary, manufacturing and of course, Financials and

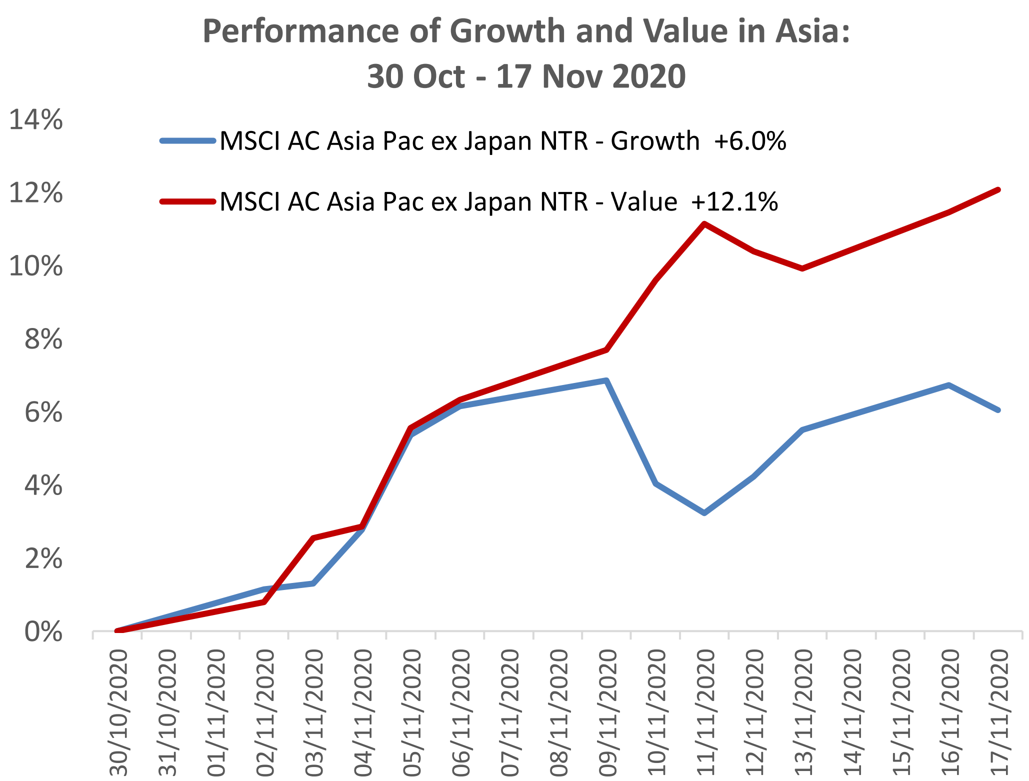
Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

Energy have been markedly out of favour. Income stocks too, have fallen into the latter category. The chart below shows the performance gap that has opened this year between Growth and Value:



Performance is presented in US dollars and runs up to 17 November 2020.

November is the first time that we have seen Value stocks outperform. The chart below shows performance of Growth and Value in the first 17 days of November:



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.

Our initial take on this is that first, the performance gap between Growth and Value suggests there is now a meaningful investment opportunity in Value names; second, recent market performance suggests that if a clearer path opens up toward a return to normal life then the market thinks these Value names look attractive; and third, these are still the very early stages towards such a return, and the possibility of further setbacks is still with us – which leaves time and opportunity to build positions in this neglected area.

Nevertheless, we believe the investment picture is more nuanced than a simple Growth/Value analysis. Disruption to physical economic activity draws investor focus toward the stay-at-home, online world of remote working, e-commerce and the technology and logistics systems that support it. Stocks in these areas have been propelled by huge government stimulus and abnormally low interest rates, which appear set to remain lower for longer. For our Value-oriented fund this is reflected in the portfolio's valuation discount to the market of 22%. But the route out from the pandemic will be far from straightforward. We do not expect a rising tide to lift all boats, but instead we are likely to experience unevenness that will separate companies with fundamental qualities from those which are beneficiaries of factors and trends beyond their control.

Even when COVID vaccines are rolled out and people are free to move around once again, the disruption caused over the past year will cast a long shadow, especially in developed markets. The second waves of infection and the extended period of government support will have to be paid for, and higher taxes seem inevitable, which will act a brake on economic recovery. In North Asia, which is the region's economic powerhouse, COVID has been less severe. Government support has been less onerous on public finances and economic activity has been recovering since April. We see this in trade figures, industrial output, investment, retail sales, oil consumption, the price of copper and iron ore – all of which point to greater activity. The extent to which this recovery depends on external factors such as developed market demand remains in question, but it appears to us that this is less critical than it was. The region itself is becoming more and more self-supporting.

The recent trade agreement is, we think, very important in this regard. The Regional Comprehensive Economic Partnership (RCEP) was years in the making and covers the 10 members of the Association of South East Asian Nations (ASEAN, which includes Indonesia, Malaysia, Singapore and Thailand and also emerging nations including Vietnam and Cambodia) together with China, South Korea and Japan. This area covers almost a third of the world's population, according to estimates quoted in the Financial Times, and could add US$200 billion annually to the world economy by 2030. The key to this, as in any trade agreement, is the removal of frictions such as tariffs and administrative constraints. The rules on country of origin for a manufactured good, for example, differ around the region and by consolidating a dozen variations to one common acceptable method of determination can simplify the manufacture and movement of goods within the region. India withdrew from the RCEP negotiations because it fears a flood of Chinese imports will swamp its domestic manufacturers, but the Agreement leaves the door open for them to join later.

While the region's long-term future still looks bright, inasmuch as the structural trends that have lifted the region from a marginal emerging market region in the 1990s to a global economic powerhouse remain in place, there are still near-term issues to navigate. Most of the issues of any significance centre around China. The development and expansion of China's debt markets has attracted increasing attention as

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.

Chinese bonds are added into global indices and China's currency continues to strengthen. Chinese attitudes toward financial risk, the role of State-Owned Enterprises, financial soundness and the laws surrounding bankruptcy and the rights of creditors are now very much in focus. We regard these as key issues for investors in determining precisely what they are buying, rather than in the form of systemic risk.

The message we want to leave with readers is that a significant gap and opportunity has opened up in the Value area of the market, in our view, but the economic long-COVID impact is not well understood and is heavily distorted by government and ongoing central bank support programmes. We have maintained a consistent focus on companies which have strong balance sheets (i.e. with low debt, cash on hand and lower capital commitments) and which have demonstrated a competitive advantage in their area of activity that has delivered superior returns on invested capital over time. We think that these companies are likely to do better than their peers in the uneven recovery ahead and that better cash flow and dividend performance could then be rewarded with stronger share price performance.

Portfolio Review

Performance in October was led by a recovery in our Financials exposure and was also slanted towards domestic China, whose economic performance continues to diverge from that of the world's leading economies. Tisco Financial in Thailand, China Merchants Bank, China Construction Bank and BOC Hong Kong were the main movers amongst the banks. We also saw strong contributions China Lilang, following its sales recovery in the third quarter and into the October holiday, and from two of our three China A-shares, Suofeiya Home Collection and dairy business Inner Mongolia Yili Industrial. Technology names more closely associated with 5G telephony and data centre equipment, including Qualcomm, Elite Material and Novatek Microelectronics, made good contributions. Finally, we continue to see strong recovery in the share price performance of Tech Mahindra in India on the strength of its position in telecom IT consulting.

Weaker names in the month (and still for the year so far) include two of our real estate investment trusts (REITs) Capitaland and Link, Public Bank in Malaysia, Aflac, China Mobile, Largan Precision, China Medical Systems and PTT. There is still some catching up to be done amongst these, but the news flow continues to improve and performance in November for most has been good. (The exception has been China Mobile which has been impacted by one of President Trump's valedictory policy moves adding it to a list of restricted entities for US investors.)

Outlook

A significant gap and opportunity has opened up in the Value area of the market, in our view, but the economic long-COVID impact is not well understood and is heavily distorted by government and central bank support programmes which are ongoing. We have maintained our focus on companies which have strong balance sheets (i.e. with low debt, cash on hand and lower capital commitments) and a demonstrated competitive advantage in their area of activity that has delivered superior returns on invested capital. We think that these companies are likely to do better than their peers in the uneven recovery ahead and that better cash flow and dividend performance could then be rewarded with stronger share price performance.

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.

Edmund Harriss (Portfolio Manager)
Mark Hammonds (Portfolio Manager)
Sharukh Malik (Analyst)

Data sources

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

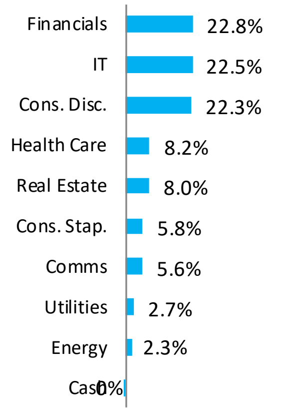
Index and stock data: *Bloomberg*

PORTFOLIO **31/10/2020**

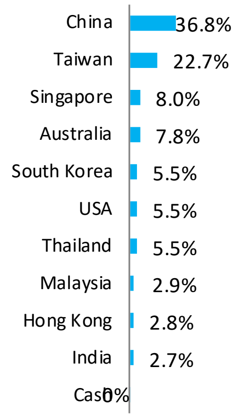
Fund top 10 holdings

China Lilang	3.4%
Tisco Financial Foreign	3.1%
Netease.com	3.0%
Suofeiya Home Collection	3.0%
KT&G Corporation	2.9%
Largan Precision	2.9%
Hon Hai Precision Industry	2.9%
BOC Hong Kong	2.9%
Catcher Technology	2.9%
Shenzhou International	2.9%
% of Fund in top 10	29.9%
Total number of stocks in Fund	36

Sector analysis



Geographic allocation



PERFORMANCE

31/10/2020

Discrete years % total return (GBP)	**Oct '20**	**Oct '19**	**Oct '18**	**Oct '17**	**Oct '16**
Fund (Y class, 0.99% OCF)	-4.0	10.3	-6.6	16.4	34.8
MSCI AC Pacific ex Japan Index	11.9	12.5	-8.6	17.4	36.5
IA Asia Pacific ex Japan	11.2	14.3	-9.8	16.3	34.9

Cumulative % total return (GBP)	**1 month**	**Year-to-date**	**1 year**	**3 years**	**From launch**
Fund (Y class, 0.99% OCF)	-0.3	-5.6	-4.0	-1.2	85.2
MSCI AC Pacific ex Japan Index	2.4	7.8	11.9	15.0	90.3
IA Asia Pacific ex Japan	1.7	7.6	11.2	14.8	89.3

Annualised % total return from launch (GBP)

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

31/10/2020	**Index**	**Sector**	**Fund**
Alpha	0	0.72	0.71
Beta	1	0.91	0.90
Information ratio	0	-0.02	-0.05
Maximum drawdown	-26.28	-24.54	-24.84
R squared	1	0.96	0.85
Sharpe ratio	0.41	0.44	0.40
Tracking error	0	3.22	5.87
Volatility	15.03	14.02	14.66

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 (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.

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, 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'Ile, 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.