Guinness Asian Equity Income Fund

INVESTMENT COMMENTARY – December 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)

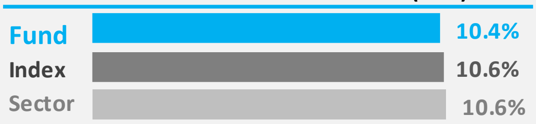
30/11/2020

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	1.7	2.6	99.5
Index	14.8	19.1	101.2
Sector	14.7	17.9	101.7

Annualised % total return from launch (GBP)



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0	1.0	1.2
Beta	1	0.9	0.9
Info ratio	0	0.0	0.0
Max drwdn	-26.4	-24.5	-24.8
Tracking err	0	3.5	6.0
Volatility	15.3	14.1	14.7
Sharpe ratio	0.5	0.5	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. Returns for share classes with a different OCF will vary accordingly.

Source: Financial Express, Y class 0.99%, bid to bid, total return. Please refer to the penultimate page of this document for full performance details.

ELITE RATED by FundCalibre.com

Fund & Market

- In November, the Fund's Class Y shares rose 7.8% in GBP (8.4% in EUR, 11.3% in USD), which was 2% ahead of the market 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.
- Thailand was the region's best-performing market, followed by Singapore after a period of significant weakness. The Korean market also jumped and now joins China and Taiwan as one of the region's leading performers over the year to date.
- The best sectors, consistent with the rotation we are seeing into Value names, were Energy, Financials and Industrials.
- Consensus earnings estimates continued to rise for both the market and the Fund in November. Leading the changes in expectations were India and Indonesia, followed by Australia, China and Korea. The main sectors to see forecast upgrades were Energy, Healthcare and Materials, followed by Consumer Discretionary.
- The MSCI AC Asia Pacific ex Japan Value Index rose 13% in USD terms during the month, compared to the Growth equivalent which rose 6%. Over the year-to-date Growth is still well ahead, up 27.6%, while Value is up 2.3%.

Events in November

- The US Presidential election was won by Democrat Joe Biden.

- Alibaba's stock market launch of Ant Financial was pulled at the last moment following moves by regulators that would significantly affect the company's business model.

- Ten South-east Asian nations plus China, Korea, Japan, Australia and New Zealand signed the Regional Comprehensive Economic Partnership (RCEP), forming the world's largest trading bloc. The agreement does not include India, which withdrew from discussions, but the door is left open to it to join later.

- China has blocked imports from Australia including coal, copper and foodstuffs as relations between the two countries continue to sour.

- Singapore continues to push its credentials as a financial centre by developing further its offshore Yuan market through a five-fold expansion of the Yuan liquidity facility provided by the Monetary Authority of Singapore. Shortly following the announcement, China Development Bank announced the listing of two new Yuan-denominated bonds in Singapore.

- Singapore has announced the launch of a digital exchange launched by DBS and in which Singapore Exchange also has a stake. This will allow the trading of fiat and crypto currencies.

- Positive data came out from various Covid-19 trials. The BioNTech/Pfizer vaccine prevented 90%+ of trial participants from getting Covid-19. A week later, Moderna's results showed 95% of participants were protected. This news led to a rally in stocks which are deemed to benefit from the rollout of the vaccines and a return to normal life.

Market Review

The macro environment in North and developed Asia continues to be positive. Covid-19 cases continue to fluctuate but the overall situation in these markets is considerably better than that prevailing in the US, the UK, Europe and South America. Economic activity in China, Korea and Taiwan continues to pick up and Singapore is now talking about entering the final phase of easing Covid restrictions. The latest data for China recorded November industrial production up 7% year-on-year and retail sales up 5%, both at the fastest rate this year. At the same time, Oxford Economics raised its forecast for economic growth in China to 2.1% for 2020 followed by 8.1% growth in 2021.

Financial markets have of course responded very positively to the initial roll-out of a vaccine and this has been reflected in a shift from Growth stocks, which have led market performance for much of the year, into Value. The roll-out is, however, still in its early stages and the path toward any kind of normality remains challenging. Therefore, as we discussed last month, we expect that rather than a straightforward shift in investment style we shall see greater discernment in the coming months. A gap is likely to become apparent between those companies with solid business models, financial resources and a strong market position and those companies whose growth depends more heavily on an economic recovery.

The outcome of the US election has now been confirmed by the Electoral College and the ratification by Congress is now seen to be a formality. There are still five weeks to go before inauguration however, and it seems that President Trump is looking at ways to tie the hands of his successor. In any event, we do not expect significant easing of the US position with respect to China, but we think there is an expectation of a less volatile and unpredictable relationship with the next administration. The US Dollar has been notably weaker in recent weeks following the news and subsequent roll-out of a Covid-19 vaccine. Our expectation is that US monetary policy will remain supportive and that interest rates will remain lower for longer; we think there is a possibility that the new administration will increase spending, and if the Democrats achieve a Senate majority by winning in Georgia there is likely to be further pressure from the progressive wing of the Democratic Party to do so. Both could bring about further Dollar weakness which could be positive for Asian and Emerging Markets stocks.

Market optimism is reflected in rising consensus earnings estimates from analysts. There has been a marked acceleration in upward revisions to forecasts in Asia, as there have been in Europe. Earnings estimates for Asia as measured by the MSCI Asia Pacific ex Japan Index have increased by 3% for each of the next three years while those for the US have also risen by around 1.5%. This is consistent with what we are seeing in stock price performance. The Covid vaccine indicates a path back towards easing restrictions and a resumption of economic activity. The outlook for consumer and manufacturing businesses looks a little brighter and so we have seen earnings forecast increase and stock prices in sectors outside the Technology, Communication Services and Healthcare sectors begin to move.

On a country basis, upward revisions to earnings forecasts have been broad-based, with Australia, China, India, Indonesia, Korea, Malaysia and Singapore all seeing significant changes. Taiwan, with its technology-heavy index, has seen less of a change in the past month while the analyst consensus has yet to turn more positive on Hong Kong, the Philippines and Thailand. A sector analysis gives some more granularity: Consumer Discretionary in Australia and China are seeing a notable turnaround as are Materials in Australia, India, Korea and Malaysia. Financials have seen upgrades in India, Korea, Malaysia and Singapore but upgrades have been much more modest in Australia, Hong and China. The picture for Industrials is also mixed, with very strong upgrades in India and Korea, flat in China and downgrades in Malaysia and Thailand.

Portfolio Review

The portfolio performed well during the month, led by banks and Financials, selected Technology names and real estate investment trusts (REITs). Consumer Discretionary names were laggards over the month with the notable exceptions of Corporate Travel Management and Hanon Systems (a Korean auto parts maker). The best performers were accompanied by strong upward revisions to earnings forecasts of between 1% and 8% on the previous month. The weaker performers in November had mostly been strong performers in prior months (the exceptions being China Mobile and China Medical Systems) and so saw their share prices hold steady or give a little. However, among this group (JB HiFi, Zhejiang Supor, China Mobile, China Medical Systems, Suofeiya Home Collection) all saw earnings forecasts revised higher by 2% to 4%.

In specific company news:

DBS acquired a distressed Indian bank which will significantly accelerate development of its India strategy. The bank also announced the launch of a digital exchange, in which Singapore Exchange has a 10% stake. This will allow trading of fiat and crypto currencies. Switzerland is looking to do the same. DBS expects it will break even in a year.

Ascendas REIT launched a rights issue to fund property purchases in the US and Australia. The company now owns 96 properties in Singapore (worth $6.75bn), 37 in Australia ($1.6bn), 30 in the US ($1.6bn) and 38 in the UK ($0.6bn).

Public Bank Malaysia announced a 4-for-1 stock bonus (a share split) to make its stock more attractive to retail investors. Third-quarter 2020 results reported a falling non-performing loan ratio, 4.5% loan growth, an expanded net interest margin and falling cost-to-income ratio (because income was higher). Margin expansion was due to faster growth in current deposits, which pay minimal interest compared to savings deposits, which do pay interest. This lowers the bank's cost of funds, thereby increasing the margin. Market analysts expect this improvement to continue into 2021.

Qualcomm's share price wobbled (but has since recovered and steadied) on news that Apple is seeking to develop its own modem in direct competition to Qualcomm, which derives 12% of its revenues from Apple. This is not likely to materialise for a couple of years at least, based on existing supply agreements between the two, and is also subject to uncertainty. Intel (Apple's previous partner in this endeavour) was unable to deliver a viable alternative, which forced Apple to return to Qualcomm for its 5G handset offering, but Apple's recent success with its new M1 processor chip was a surprise and indicates greater strength in chip design than expected.

The forced withdrawal of the Ant Financial initial public offering caused investors to focus once again on China's regulatory environment. We are of the view that regulatory concerns about the company's business model were reasonable and that while the timing was regrettable, the rationale was sound. Ant generates a lot of its growth by originating loans and selling them on to banks, which means it takes a cut of the fees on the loans but the risk is transferred onto the banks. This meant that Ant could adopt an aggressive loan growth strategy while taking little responsibility for the quality of the loan and with almost no financial risk to itself. As such the model fell outside the current regulatory structure. This reflects the differing speeds of financial technology development and regulatory response, which is a challenge for all central banks, not just China's.

Our view remains that Chinese financial sector regulators are not capricious but instead are trying to be responsive to an evolving market. This means some shorter-term volatility can be seen in our Chinese banks China Construction and China Merchants such as on recent news that the regulator is drawing up a list of too-big-to-fail institutions with a view to applying tighter leverage, capital and information disclosure requirements. We believe these are positive developments and since a part of our bullish view on Asia depends on a growing Chinese economy that in turn relies on a functioning and liquid financial system, we think these are important developments to watch.

Outlook

We maintain a bullish outlook for Asia given the divergence in economic performance between North Asia and the developed world. Government debt levels in the region now look comparatively modest compared to those racked up in the UK, Europe and United States where the focus will eventually fall on trying to service and repay it. We also maintain a bullish view for the Fund, which has a strong regional/domestic focus and is primarily invested in stocks that have been left behind by the rally in e-commerce, health care and stay-at home stocks, many of which pay little or no dividend. We have seen a steady stream of positive operating news leading to increases to earnings forecasts.

Bloomberg has recently reported that the "Rally in Everything" is coming to an end and that stock performance now looks "mixed". Indeed. We have observed that some of the more exuberant upward revisions by the market consensus to earnings at the aggregate market level have been scaled back a bit in December. Those consensus estimates for our portfolio companies, however, have risen further. We continue to emphasise that our process leads us to companies with a track record of above average execution and profitability in cash terms which is evidenced by a growing dividend. We are starting to see a differentiation appear in earnings' forecasts and we expect that to lead into differentiated operating results reported next year.

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

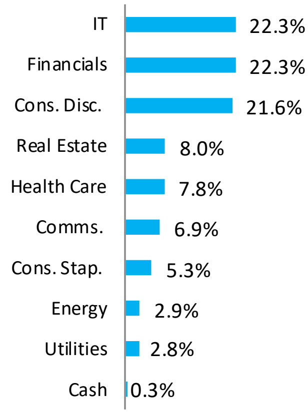
30/11/2020

Fund top 10 holdings

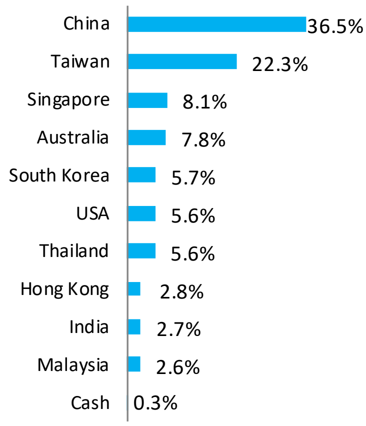
Netease.com	4.4%
Hanon Systems	3.0%
BOC Hong Kong	3.0%
St. Shine Optical Co	3.0%
Qualcomm	2.9%
China Lilang	2.9%
China Construction Bank	2.9%
PTT PCL	2.9%
Hon Hai Precision Industry	2.9%
Ping An Insurance	2.8%

% of Fund in top 10	31.6%
Total number of stocks in Fund	37

Sector analysis



Geographic allocation



PERFORMANCE

30/11/2020

Discrete years % total return (GBP)	Nov '20	Nov '19	Nov '18	Nov '17	Nov '16
Fund (Y class, 0.99% OCF)	2.6	9.3	-6.0	24.1	27.4
MSCI AC Pacific ex Japan Index	19.1	8.3	-3.7	21.3	31.1
IA Asia Pacific ex Japan	17.9	9.7	-5.1	21.8	28.1

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	From launch
Fund (Y class, 0.99% OCF)	7.8	1.7	2.6	5.4	99.5
MSCI AC Pacific ex Japan Index	5.7	14.8	19.1	24.2	101.2
IA Asia Pacific ex Japan	6.6	14.7	17.9	22.8	101.7

Annualised % total return from launch (GBP)

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

30/11/2020	Index	Sector	Fund
Alpha	0	0.97	1.15
Beta	1	0.90	0.89
Information ratio	0	-0.01	-0.01
Maximum drawdown	-26.36	-24.54	-24.84
R squared	1	0.95	0.85
Sharpe ratio	0.48	0.52	0.50
Tracking error	0	3.52	6.03
Volatility	15.27	14.05	14.73

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.

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
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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.