Guinness Asian Equity Income Fund

INVESTMENT COMMENTARY – February 2021

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)

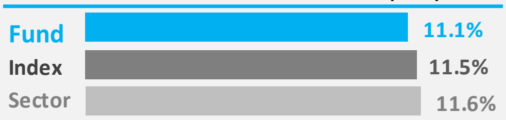
31/01/2021

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

	2020	2019	2018
Fund	4.8	14.4	-10.3
Index	19.2	15.7	-9.2
Sector	20.0	15.8	-9.8

	YTD	1 year	From launch
Fund	3.1	13.1	111.9
Index	3.6	28.0	116.5
Sector	3.3	28.1	118.0

Annualised % total return from launch (GBP)



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0	1.2	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	6.1
Volatility	15.4	14.2	14.7
Sharpe ratio	0.5	0.6	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.

Fund & Market

- In January, the Fund rose 3.1% in GBP (4.3% in EUR, 3.6% in USD; Class Y shares), which was 0.5% behind of the market as measured by MSCI AC Pacific ex Japan Net Total return Index. The Fund outperformed the MSCI Asia Pacific ex Japan Value Index by 2% and the MSCI Asia Pacific ex Japan High Dividend Index by 3%.

- Growth stocks, as measured by the MSCI Asia Pacific ex Japan Growth Index rose 5.0% (in GBP terms; 5.3% in USD, 6.2% in EUR) compared to a 1.1% (1.4% in USD, 2.2% in EUR) rise in the equivalent Value index.

- The biggest sector rise in the month was in Communication Services, driven by Tencent, which rose over 20%, followed by the Consumer Discretionary and Technology sectors.

- China and Taiwan were the best-performing markets during the month, heavily influenced by Tencent and Taiwan Semiconductor respectively. The weakest countries were the Philippines (to which we have no exposure) and Malaysia.

- The Fund's performance was led by Chinese and Taiwanese stocks, but there was no sector concentration. The top five performers were China Medical Systems, Suofeiya Home Collection, China Merchants Bank, Hon Hai Precision and NetEase.

- The five weakest stocks were defensive names: Korean Reinsurance, KT&G and China Resources Gas, along with Largan Precision and Corporate Travel Management.

- Company results are beginning to come through. Taiwan Semiconductor, Tisco Financial, CapitaLand

Integrated Commercial Trust and Tech Mahindra beat market forecasts while Largan's results were a little behind.

Events

- China reported economic growth for 2020 of 2.3%, making it probably the only major economy in the world to have recorded growth last year.

- The inauguration of Joe Biden as the 46th President of the United States has been greeted positively by markets following chaotic scenes earlier in the month. Markets anticipate a continued adversarial but less combative approach toward China.

- The UK is setting the pace on the COVID vaccine roll-out, which is drawing envious reactions around the world. Multiple vaccines are on offer, and the number is growing. An effective rollout programme enables markets to form more concrete views on a timetable for exiting lockdowns.

- The EU, by contrast, is having a much worse time with its vaccine programme, which will almost certainly mean an extended period of restrictions and some social unrest. At the very least, consumer confidence in the bloc is likely to remain at depressed levels for a while yet.

- US government bond yields have increased noticeably during the month. While short-term yields (on maturities out to three years) remain low, there has been a noticeable steepening in maturities beyond five years. This suggests bond markets are beginning to factor in a path to a post-COVID normalisation and the effects of significant government spending and debt accumulation.

Market Review

Asian markets opened strongly in 2021, outperforming developed and non-Asian emerging markets in January. The MSCI AC Pacific ex Japan Index rose 4.1% in US dollar terms, while the S&P 500 Index was down 1.0%, MSCI Europe ex UK was down 1.8%, the UK was down 0.4% and MSCI Emerging Markets ex Asia fell 2.0%. This appears to reflect a growing collective view that Asia's relative economic strength during the COVID pandemic, coupled with a wide valuation discount to developed markets that prevailed at the end of 2020, makes the region look attractive.

Closer inspection of market performance supports that analysis to some extent: North Asian markets outperformed those of South and South-east Asia. China and Taiwan were the best performers, climbing 7.4% and 6.5% respectively, and were supported to a lesser extent by Hong Kong and Korea, which rose 2.0% and 1.2% respectively. In South and South-east Asia, Singapore rose 1%, Thailand was flat and the rest were down. Australia was unchanged.

Macro-economic performance provides a favourable backdrop but does not provide a complete explanation. The Growth style of investing also reasserted itself, at least at the index level (as measured by the MSCI AC Asia Pacific ex Japan Growth Index). Taiwan Semiconductor, which rose 12% in January, and Tencent, which rose over 20%, dominate the Growth index. Two other top-10 stocks in the Growth index, China food delivery business Meituan and Hong Kong Exchanges and Clearing (HKEX), also had a strong month, rising 20% and 18% respectively. The strength in HKEX is significant because it reflects another factor at play over the month, that of substantial investment flows from Mainland China into Hong Kong-listed Chinese stocks via the Stock Connect Scheme.

Stocks in the MSCI AC Asia Pacific ex Japan Value Index had a much weaker performance profile. This index has a lower stock concentration with its top 10 holding accounting for 21% of the total as compared with the equivalent Growth index in which the top 10 stocks account for almost 60%. The Value index is heavily weighted toward Financials, Industrials and Materials, which were the weakest sectors during the month.

Asian currencies were mostly unchanged over the month but the Chinese renminbi, which is arguably the most important from market signalling perspective, continued its rise against the dollar, climbing 0.8%. The Korean Won fell almost 3% following its strong run in the last two months of 2020 but is still 3% above pre-COVID levels. The US dollar, which had been weakening against the world's major currencies at the end of 2020 and into the beginning of 2021, has reversed course and begun to strengthen once again. We think this reflects uncertainty around the time it will take for COVID vaccines to be deployed and thus the duration of economic disruption this year, and issues surrounding the new US administration's stimulus spending plans. From an Asian perspective, the 1.4% decline in the Japanese Yen makes the Korean Won decline (a trading competitor to Japan) less painful.

Portfolio Review

The perhaps overly detailed discussion on the Growth and Value index styles and composition is designed to show that while looking at these styles can provide some explanation for the performance of markets and the Fund, it is far from complete. The Fund has a bias toward Value, but we still demand growth in cash flows and earnings to underpin dividend growth; and the holdings in the portfolio are equally weighted. The Fund did well in January, especially given the performances of certain index heavyweights which pay a minimal dividend or none and therefore are not included in this strategy.

The aggregate Price/Earnings multiple for the portfolio at month-end was 12.0x consensus estimated forecast earnings and 11.2x estimated earnings for next year, compared to market valuations of 17.2x and 14.9x respectively. This puts the portfolio on a valuation discount to the market of 30% and 25% for each of the next two years. However, the earnings growth profile of the portfolio looks considerably more attractive than the discount would imply, in our opinion. Based, again, on consensus earnings estimates, the average annual earnings growth rate from 2019 to 2022 is 10.5% while that for the market is 9.9%. Furthermore, based on the changes to earnings estimates, it seems the market consensus is becoming more positive on stocks held in the Fund and appears to be paring back forecasts for the broader market.

This apparent disconnect between market valuations and forecast operational results represents the strongest and most immediate argument in favour of this strategy, in our view. Our focus on quality companies that have delivered superior returns on capital and cash flow growth is designed to identify those which can sustain such high levels of performance in the most challenging circumstances.

Companies are now beginning to report earnings either for the full year or for the fourth quarter (with results for the full year announcements accompanied by dividend declarations).

In January, **Largan Precision** reported fourth quarter results that were just short of the market forecast. Margins for the business are holding up as higher-resolution lenses make up an increased share of volume, but the overall sales outlook remains cloudy. Still, January sales were stronger than expected, so it is possible the coming quarter may surprise. **TSMC** continues to go from strength to strength; fourth quarter earnings grew 23%, pushing full-year 2020 profits to a new record. Its technology leadership continues to widen the gap with its peers, and as demand for chips grows ever faster, the company announced a record annual capital expenditure spending plan in the coming year of $28 billion. The company has maintained a flat dividend since it moved to quarterly payments in mid-2019, which lags the profit growth in 2020, but we would hope to see a resumption of dividend growth this year.

In Thailand, **Tisco Financial** reported a decent set of results which were better than market forecasts. The bank is well capitalised and well provisioned against non-performing assets but will still have to comply with the Central Bank's requirement for commercial banks to restrict dividends. Tisco has some flexibility on this score, according to the board chairman, because there are subsidiaries in the group which are not covered by the restriction, so the payout could be higher. **CapitaLand Integrated Commercial Trust** saw net property income rise in results for the fourth quarter, although this was boosted by the impact of the merger with CapitaMall Commercial Trust earlier in the year. The company continues to feel the effects of the pandemic on its retail and office portfolios but at the same time is reporting improvements in shop visitors and tenants. It would be fair to summarise the position as challenging but improving.

Tech Mahindra, our only Indian position, reported strong operating results for its third quarter ending in December. Margins improved with increased utilisation and more project work done in India. We hold the stock for its exposure to the roll-out of 5G technology and the broad range of 5G applications in both the commercial and consumer areas. New project wins by the company continue to be an important driver of the share price. The company's financial year-end is March 31st, when we shall know more about the dividend.

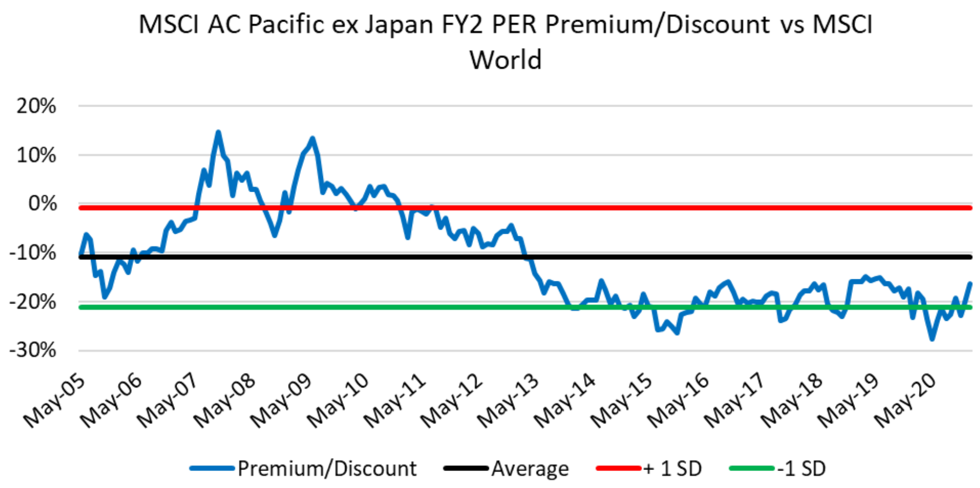
In February, **Ascendas REIT** reported good second half results on its industrial properties and recorded a 6.7% increase in distributions for 2020. The company has had a busy year accumulating properties in the US, UK and Australia on top of its substantial Singapore portfolio. The company now owns 96 properties in Singapore (worth $6.75bn), 37 in Australia ($1.6bn), 30 in the US ($1.6bn) and 38 in the UK (S$0.6bn).
Aflac, a US-headquartered insurance company with substantial revenues from Japan, reported fourth quarter results that were ahead of expectations. Aflac adopts a progressive dividend policy which in recent years has brought about increases of 4-5% per annum, but in November the trajectory was increased by 17.9% and has been sustained into the recent quarter. This continues a 38-year record of consecutive dividend increases.

Ping An Insurance results for the fourth quarter were below market expectations but the annual dividend was still increased by 9%. The company appears to have taken the opportunity to report as many negative items as it can, which should set up 2021 for growth. The most attention-grabbing was the shrinkage in the sales force, with the company turning its attention to driving growth by improving their quality and productivity rather than by simply adding bodies. **Novatek Microelectronics** reported very strong results for the last quarter of 2020 with the outlook for gross margins in the 38%-41% range being the big surprise, and higher than expected. The company is a chip designer whose products are used in displays ranging from communications devices to TVs and cars. The news prompted a significant upgrade to earnings forecast for the coming year. The board usually declares its annual dividend in late April.

KT&G reported fourth quarter earnings that almost triple those of the same period last year and beat estimates. The long-awaited improvement in export sales is now materialising. The company increased its 2020 dividend, which the market expected to be flat, by 9%. In a positive piece of news, **Hanon Systems**, which cut its quarterly dividend by 15% in 2020, raised its year-end distribution to restore the dividend for the full year back to the same level as 2019.

Outlook

The outperformance of Asian markets versus the rest of the world in the first month of this year has closed the valuation discount to developed markets a little, but it still remains below the long-run average.



Source: Bloomberg, MSCI, Guinness Asset Management. Data as of 29 January 2021

The macro-economic growth profile, especially in North Asia, appears to us to be significantly more robust than other parts of the world. North Asian management of the COVID pandemic has been more effective than in Europe and the US, generated less economic disruption and required less financial support.

There are plenty of challenges that lie ahead. US relations with China are likely to remain adversarial but, we hope, less volatile. In the Technology sector, there are concerns over the supply of semiconductor chips and the disruption now felt in the auto sector has prompted meetings between the US administration and Taiwanese producers. The shortages are partially the result of hoarding by Chinese companies facing sanctions and partially due to unexpectedly strong demand from several directions (PCs, smartphones, autos, cloud computing). The suspicion among the auto makers is that with tight production capacity at the chip makers, their supply is being curbed in favour of higher-margin chips for the consumer electronics sector. We would expect to see this resolved and new capacity will come on stream, with complexity rather than cost being the hurdle.

The companies in the portfolio still trade in aggregate at a wide discount to Asian regional valuations and yet are forecast to grow earnings at a faster pace than the market. Company results seen so far give us plenty of encouragement that consensus forecasts present a realistic picture and could see further upgrades.

Edmund Harriss (Portfolio Manager)
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Data sources

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

Index and stock data: *Bloomberg*

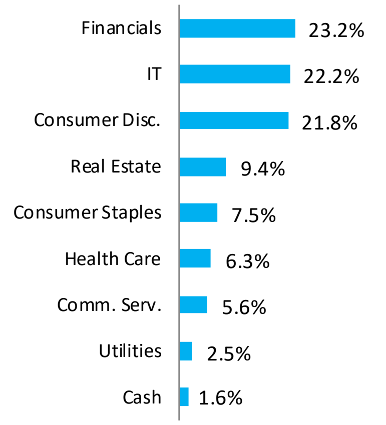
PORTFOLIO

31/01/2021

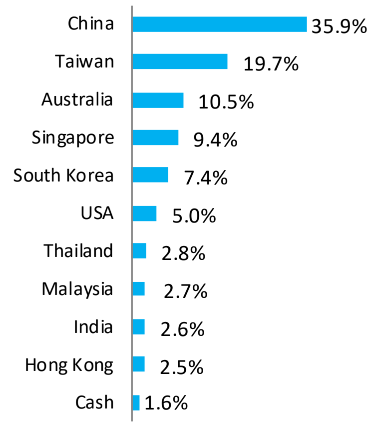
Fund top 10 holdings

Ascendas Real Estate Trust	3.8%
China Medical System	3.6%
Hon Hai Precision Industry	3.4%
Novatek Microelectronics	3.3%
China Merchants Bank	3.2%
Suofeiya Home Collection	3.2%
Capitamall Trust	3.1%
Netease.com	3.0%
Taiwan Semiconductor	3.0%
JB Hi-fi	3.0%
% of Fund in top 10	32.5%
Total number of stocks in Fund	36

Sector analysis



Geographic allocation



PERFORMANCE

31/01/2021

Discrete years % total return (GBP)	Jan '21	Jan '20	Jan '19	Jan '18	Jan '17
Fund (Y class, 0.99% OCF)	13.1	5.5	-6.7	20.8	35.0
MSCI AC Pacific ex Japan Index	28.0	6.6	-6.6	22.4	39.3
IA Asia Pacific ex Japan	28.1	7.8	-7.4	21.3	37.9

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	From launch
Fund (Y class, 0.99% OCF)	3.1	3.1	13.1	11.4	111.9
MSCI AC Pacific ex Japan Index	3.6	3.6	28.0	27.5	116.5
IA Asia Pacific ex Japan	3.3	3.3	28.1	28.0	118.0

Annualised % total return from launch (GBP)

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

31/01/2021	Index	Sector	Fund
Alpha	0	1.17	1.16
Beta	1	0.90	0.88
Information ratio	0	0.03	-0.04
Maximum drawdown	-26.36	-24.54	-24.84
R squared	1	0.95	0.85
Sharpe ratio	0.51	0.56	0.52
Tracking error	0	3.51	6.08
Volatility	15.44	14.19	14.72

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.

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Telephone calls will be recorded and monitored.