

# Guinness Asian Equity Income Fund

INVESTMENT COMMENTARY – May 2021

**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.

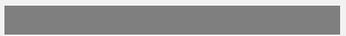
**Performance (in GBP)** 30/04/2021

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

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

	YTD	1 year	From launch
<b>Fund</b>	9.5	32.4	125.1
<b>Index</b>	4.4	35.1	118.2
<b>Sector</b>	5.7	38.8	123.0

## Annualised % total return from launch (GBP)

<b>Fund</b>		11.6%
<b>Index</b>		11.2%
<b>Sector</b>		11.5%

## Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
<b>Alpha</b>	0	1.4	2.0
<b>Beta</b>	1	0.9	0.9
<b>Info ratio</b>	0	0.1	0.1
<b>Max drwn</b>	-26.4	-24.5	-24.8
<b>Tracking err</b>	0	3.5	6.2
<b>Volatility</b>	15.4	14.2	14.6
<b>Sharpe ratio</b>	0.5	0.6	0.6

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 0.89%, bid to bid, total return. Please refer to the penultimate page of this document for full performance details.



## Fund & Market

- In April, the Fund's Class Y shares rose 1.4% in GBP (-0.7% in EUR, 1.7% in USD), compared to MSCI AC Pacific ex Japan Net Total return Index which rose 2.9% (0.8% in EUR/3.2% in USD).

- Growth stocks, as measured by the MSCI Asia Pacific ex Japan Growth Index, rose 2.9% in GBP terms (0.8% in EUR/3.1% in USD) and Value stocks rose 2.3% (0.1% in EUR/2.5% in USD) as per the equivalent Value Index.

- The Fund remains 5% ahead of the benchmark so far this year.

- Six stocks in the portfolio reported final dividends. Tech Mahindra and Novatek Microelectronics increased their dividends by 100% and 49% respectively. The only stock to register a decline was Zhejiang Sopor Cookware, whose dividend was 3% below last year's. Three more companies reported quarterly dividends which were either unchanged or up on last year, in line with expectations.

- The best performers in the portfolio were China Medical Systems (which has doubled this year), Nien Made Enterprise, Novatek Microelectronics, Korean Reinsurance and NetEase.

- The weakest performers were Suofeiya Home Collection, JB Hi-Fi, Hanon Systems, Ping An Insurance and China Construction Bank.

- Taiwan and Australia were the best-performing markets during the month and the best sectors were Materials and Health Care.

- India and Thailand were the weakest markets and the weakest sectors were Real Estate and Utilities.

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## Events in April

- The most dramatic event, and truly awful to watch, is the surge in Covid-19 cases in India which has overwhelmed the country's healthcare system.
- In economic terms, the biggest event has been the aggressive spending proposals by President Biden; three economic plans totalling almost \$6 trillion have been proposed, making a clear statement of intent and which mark a significant shift in the perceived role of government in the US from that prevailing over the past 40 years.
- US foreign policy has also evolved in terms of its implementation, but not its focus. China continues to be viewed as the major strategic threat and there are big efforts underway to rebuild alliances that were shaken by the previous administration.
- Estimates for world economic growth have increased, with the IMF being the latest to lift estimates driven by US and China expansion. The median growth forecast for the world is 5.8% in 2021 with the US at 6.3% and China at 8.5% growth.

## Market Review

Markets remained buoyant in April, led by a strong US equity market performance which reflected stronger growth expectations due to Biden's stimulus spending plans. Asia Pacific in aggregate underperformed the US during the month, but selected areas, notably Australia, Taiwan, Materials, Health Care and Technology, did well. Commodity prices have been very strong this year and rose again in April, led by iron ore and copper prices. This rally is increasingly being felt by downstream manufacturers using these inputs as well as by those using plastics and wood. While the market oscillates around the issue of whether inflation at the macro level is a problem or not, we see companies experiencing a marked rise in raw materials costs. Stronger companies with pricing power are likely to be better able to pass through these costs; weaker ones will not and will see pressure on margins.

One or two of our companies have already noted the issue of rising costs in their quarterly reports. Elite Material is a manufacturer of printed circuit boards and is therefore exposed to a higher copper price (the spot price is up 26% this year and rose 13% in April alone). The first-quarter results were a little below expectations for this reason, but the company can pass on these costs, albeit with a two to three-month lag. Nien Made Enterprise is a manufacturer of shutters and blinds sold in the US, Europe and Asia. Concerns about rising PVC costs have arisen and the stock has weakened recently. The company has already been active in efforts to fend off this pressure by increasing its bespoke product range where it has greater pricing power. We think that this, together with rising home sales in the US, is likely to mitigate the impact.

The rotation trade that we saw emerging at the end of last year and again in February and March is not yet well established, in our view. While stock markets have focused on soaring business confidence, as measured by Purchasing Managers' Indices, expectations of a rebound in consumer spending, and a rebound in inflation, not everyone is convinced. The Federal Reserve has been noticeably resistant to act on calls to respond these expected trends. Many businesses and jobs have been lost during the pandemic and these optimistic scenarios are far from assured. In stock market terms it has been our observation

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that the recovery in Value has been concentrated in the highly cyclical sectors of the market, such as Materials, or among the more financially distressed names. Quality, dividend-paying stocks have outperformed the broad market but have a long way to go to make up their underperformance versus Growth since 2015.

### Portfolio review

Six companies reported end of year results or declared a final dividend for the past financial year.

**Tech Mahindra** reported a mixed final quarter with lower revenue than expected but which was ahead on margins, a very strong pipeline of new business and an increased dividend payout. The company increased its final dividend by 100% with a special dividend and has said that it aims to distribute 70% of free cash flow every year. For us, the strong outlook for its largest business areas, Telecom and Manufacturing, continues to underpin the investment case.

**Novatek Microelectronics** reported results earlier in the year that surprised the market with the strength in demand for its display driver chips across all business areas – smartphones, PCs, televisions and autos. The jump in margins looks set to continue and the share price responded positively. Now the company has declared a 49% increase in its dividend in line with its profit growth in 2020.

**Catcher Technology** declared a 20% increase in dividend. The business has changed significantly since the disposal of its smartphone case manufacturing facilities. Gross margins for the remaining business improved to 30% on a better product mix but the key issue now is how they deploy the cash raised from last year's disposal.

**Suofeiya Home Collection** reported revenue growth of 9% and EPS growth of 10%. The dividend rose in line, by 9%. The company is a manufacturer of wardrobes and kitchen cabinets. To help target the different segments of the market, Suofeiya has established a new brand called *Milana*, targeting the mass market. Existing brands *Schmidt* and *Huahe* will target the premium end of the market, while *Suofeiya* will cover the mid-to-high-end. We believe the company can take advantage of rising household incomes which should drive demand for home improvements.

**Inner Mongolia Yili** reported revenue growth of 7%, EPS growth of 2% and a dividend per share up 1%. Management thinks Yili now ranks as the fifth-largest dairy company in the world and is aiming to become the third largest by 2025. Margins for the core business were stable but the group margin was dragged down by newer segments such as fresh milk and cheese, which need to scale up if Yili is to achieve its growth targets.

**Zhejiang Supor's** dividend was down 3% on last year, slightly better than the 6% profit decline for 2020. The company had a weak first half in 2020 but since June has been on an accelerating trend. Its results for the first quarter this year have seen it return to pre-pandemic levels.

### Outlook

We continue to think that our approach that focuses on quality, dividend-paying companies is well suited to the uncertain conditions that lie ahead. Quality companies in this case mean those with sustainable competitive advantages that should enable them to navigate a highly uncertain post-pandemic recovery. We consider these attributes in terms of the return on capital that the companies have generated over time and assess the likelihood of these persisting. We also look for companies that operate on a solid

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## Guinness Asian Equity Income Fund

financial basis with low debt, generating strong free cash flow to fund capital expenditure and with more to spare to pay a dividend.

The portfolio valuation of 13.4x estimated earnings for 2021 puts it on an 18% discount to the market and the Fund has a trailing 12-month yield of 3.2%, as calculated at 30/04/21 (*Historic yield reflects the distributions declared over the past 12 months expressed as a percentage of the mid-market price, as at the date shown. It does not include any preliminary charges. Investors may be subject to tax on the distribution*).

**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*

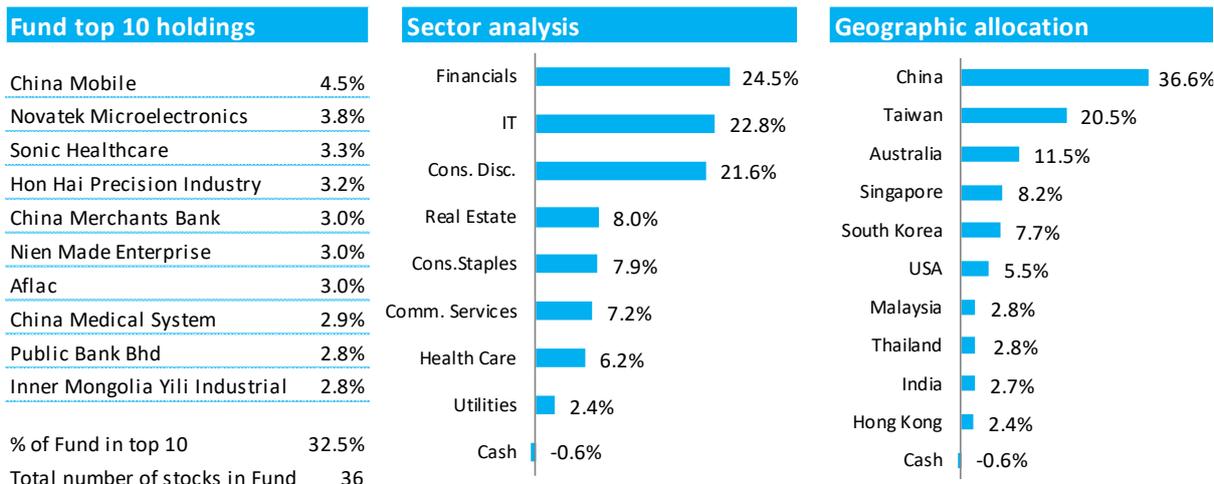
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## Guinness Asian Equity Income Fund

### PORTFOLIO

30/04/2021



### PERFORMANCE

30/04/2021

Discrete years % total return (GBP)	Apr '21	Apr '20	Apr '19	Apr '18	Apr '17
Fund (Y class, 0.89% OCF)	32.4	-12.5	5.8	10.4	37.0
MSCI AC Pacific ex Japan Index	35.1	-4.3	2.2	13.4	36.0
IA Asia Pacific ex Japan	38.8	-5.3	2.6	12.2	34.7

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.89% OCF)	1.4	9.5	32.4	22.6	85.5	125.1
MSCI AC Pacific ex Japan Index	2.9	4.4	35.1	32.2	104.0	118.2
IA Asia Pacific ex Japan	2.1	5.7	38.8	34.9	103.8	123.0

### Annualised % total return from launch (GBP)

<b>Fund (Y class, 0.89% OCF)</b>	11.6%
MSCI AC Pacific ex Japan Index	11.2%
IA Asia Pacific ex Japan	11.5%

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

30/04/2021	Index	Sector	Fund
Alpha	0	1.35	1.95
Beta	1	0.90	0.87
Information ratio	0	0.09	0.08
Maximum drawdown	-26.36	-24.54	-24.84
R squared	1	0.95	0.84
Sharpe ratio	0.49	0.56	0.56
Tracking error	0	3.52	6.21
Volatility	15.44	14.18	14.64

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Source: Financial Express, bid to bid, total return (Y Class, 0.89% 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](http://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](http://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

Tel: +44 (0) 20 7222 5703

Email: [info@guinnessfunds.com](mailto:info@guinnessfunds.com)

Web: [guinnessfunds.com](http://guinnessfunds.com)