Guinness Asian Equity Income Fund

INVESTMENT COMMENTARY – August 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) 31/07/2021

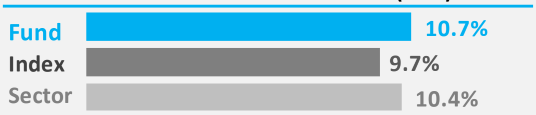
Past performance does not predict future returns

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	5.6	22.3	116.9
Index	-3.3	11.8	102.1
Sector	0.4	18.6	112.0

Annualised % total return from launch (GBP)



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0	1.6	2.3
Beta	1	0.9	0.9
Info ratio	0	0.2	0.2
Max drwdn	-26.4	-24.5	-24.8
Tracking err	0	3.5	6.2
Volatility	15.5	14.2	14.6
Sharpe ratio	0.4	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.

Source: Financial Express, Y class 0.89%, bid to bid, total return. Returns for share classes with a different OCF will vary accordingly. Please refer to the penultimate page of this document for full performance details.

Fund & Market

- The Fund fell -4.0% in GBP (-3.3% in EUR, and -3.4% in USD) in July, as measured by the Y share class but still defended well compared to MSCI AC Pacific ex Japan Net Total Return Index which fell -8.1% in GBP (-7.5% in EUR, -7.4% in USD).

- The Fund is 8.9% (in GBP) ahead of the benchmark so far this year and is ahead of both Value and Growth indices.

- China technology and e-commerce stocks were the weakest performers during the month. The fund's exposure to this sector is limited to NetEase which fell along with the sector, although there is no suggestion that they have fallen foul of the regulators.

- The best performers in the portfolio were Nien Made Enterprise, Elite Material, Tech Mahindra, Ascendas REIT, and Metcash.

- The weakest performers were our China A shares, Suofeiya Home Collection and Zhejiang Supor, along with China Medical System, Ping An Group and NetEase.

- The Indian stock market was the most resilient in June, while China fell most. The best-performing sectors were Materials and Utilities; the weakest were the Communication Services and Consumer Discretionary sectors.

Events

- China's regulatory efforts to rein in the technology giants stepped up this month. Regulators suddenly clamped down on DiDi, a ride-hailing business similar to Uber, that had just listed in New York. Further steps followed against Meituan, a food delivery business, and finally against the private tutoring companies.

- The Monetary Authority of Singapore (MAS) announced a lifting of curbs and dividends paid by Singaporean banks. In July 2020, the MAS asked banks to limit their distributions to 60% of that paid in the previous twelve months.

- US Consumer Price Inflation continued to rise with All Items less Food and Energy up 4.5% in June compared to the same period last year.

- The Federal Open Markets Committee (FOMC) maintained its cautious stance in its recent policy statement. The committee has in the past said that it would not move unless the economy has made "substantial further progress". Recent wording introduced "[the Committee] will continue to assess progress in coming meetings", which suggests no imminent moves on interest rate increases or curbs on asset purchases.

- Oil prices recovered from a sharp drop mid-month as OPEC wrangled over, and finally agreed upon, production targets.

- Metals prices have been mixed with iron ore weakening in July, Copper has climbed a little, while metals with tighter supply profiles such as Nickel and Zinc have climbed. Overall, these prices have held up and therefore pressure remains on input costs.

- Market concerns about inflation subsided from their peak; the yield on the US 10-year Treasury has fallen 0.5% from its high this year of 1.74%.

Market Review

Macro-economic concerns that have dominated investors' thinking this year have been replaced, in dramatic fashion, by a focus on regulatory risk in China. A second issue, which perhaps ought to attract more attention, are the fortunes of one of China's largest and certainly most indebted companies, China Evergrande Group.

In the first case, Chinese regulators have increased their efforts to rein in some of the tech titans that now dominate certain segments of China's consumer economy. As readers will recall, this process began with Alibaba last year which forced the sudden abandonment of Ant Financial's Initial Public Offering (IPO). The focus soon moved beyond financial sector activities into an assessment as to whether Alibaba was abusing its market position and engaging in anti-competitive practices. Tencent then came under the spotlight and it, along with other large China tech companies, scrambled to align their operations with evolving regulatory requirements. This month, regulators stepped in after the ride hailing business, Didi, a Chinese Uber equivalent, listed in New York and raised over $40 billion. In this case, they cited poor controls over customers and effectively cut off its ability to grow its business. Further steps were taken against China Meituan, a food delivery business, with regulators asserting that it is underpaying its delivery workers. Finally, in the private education sector, the government stated its intention to turn this into a not-for-profit activity.

The big tech issues with which China is wrestling echo concerns raised in the UK, in the EU and the US. The market dominance of the e-commerce platforms enables them to set the rules which can be to the detriment of users – be they businesses or customers. The problems around the gig economy and workers' rights have been highlighted in both ride hailing and delivery businesses. China is therefore tackling the same issues but is doing so more aggressively and seeking results in a much shorter time frame. In a wider context, Xi Jinping is pushing a social agenda that seeks to address growing inequality and this is evident in the attack on private tutorial companies that confer an educational advantage for those that can afford it, as well as in moves to protect workers' rights and ensure better pay and in the use and protection of customer data. Investors have had to reassess their earlier growth assumptions for this sector.

Our Fund has low exposure to this area due to the low dividends associated with these companies and the high stock market valuations they have commanded. The closest we have is our holding in NetEase, listed in New York and in Hong Kong. Its business is in video games and music streaming. The recent moves by the government to force Tencent to give up its exclusive rights over music streaming are in fact helpful to NetEase, which recently signed deals with both Sony and Universal. The company's plan to spin off their music business in an IPO in Hong Kong is said to have gained approval and an announcement is expected shortly.

The second issue concerns China Evergrande and its ability to meet its debt obligations. The company is a conglomerate with real estate at its heart but with wide-ranging interests, including bottled water, tourism and its much-hyped China Evergrande New Energy Vehicle Group. The parent company is running into liquidity issues and doubts are being raised with regards to its ability to repay bonds due to mature in the next few months. Furthermore, mainland banks are now reluctant to roll over Evergrande's borrowings. The size and reach of the company mean that if it all unravels in an uncontrolled fashion then the ripple effects could spread widely. At the same time, the company's controlling shareholder remains in Beijing's good graces and so we shall have to see how the government balances its desire to rein in company borrowing with possible systemic issues in this case, as well as with its treatment of an individual who, unlike Jack Ma, has been assiduous in promoting the government's wider agenda.

The fund has no direct exposure to the Evergrande Group although one holding, Suofeiya Home Collection, supplies furniture and fittings to the real estate development business as well as to other customers. Our view is that investors in Evergrande's shares and its lenders – either from bank loans or through bonds – are at greatest risk as resolutions are likely to involve a combination of disposals and 'white knight' investment that is likely to dilute existing holders. It is a reminder that implicit government support, which has allowed debt to build in the first place, can no longer be taken as a given even for the best-connected people; and this is something else that China has been flagging for a while.

Stock Review

- **Elite Material reported 2Q21 results** that were 10% ahead of forecasts and up 46%/85% over the same period in 2020/2019. Gross margin expansion accompanying stronger sales into IT infrastructure as well as to consumer electronics are the main drivers. The shares have risen 45% this year in GBP terms compared to the index which is down 5% over the same period.
- **The next quarterly dividend from DBS** is expected to be declared in early August and is expected to increase following Monetary Authority of Singapore's decision to lift the prudential restriction on bank dividends imposed last year which limited pay outs to 60% of prior year levels.
- **Capitaland Integrated Commercial Trust declared a first half dividend** that was 10% higher than forecast and 75% higher than a year ago. Net property income was double that of a year ago at S$472 million. The company granted rental waivers in the first six months of this year of S$18.9 million to those tenants affected by COVID. Distributable income trebled, also boosted by the absence of last year's income retention of $46.4 million in the first half of 2020. The company has told us occupancy is at 94.9%; retail tenants' sales are now at 86.3% of pre-pandemic levels but office returns are still low at 20.6%.

- **Aflac reported 2Q21 earnings** which were well-received with EPS 25% ahead of consensus. US pre-tax margin was 25.4% vs 19% in 2019 and 2020; Japan pre-tax margin was 26.5% compared to 21% in 2019 and 2020. Both were lifted by good underwriting margins and policy retention. New business growth is well up on a year ago (which was the trough) but remains short of pre-pandemic levels. New sales in Japan in the first half of 2021 were 65% of those in the same period in 2019, while in the US they were 73% of the equivalent 2019 period.

- **Tech Mahindra paid its annual ordinary and special dividend** in July which was 50% higher than last year. It has reported its first quarter results for the new financial year ending March 2022 that saw revenues grow 12% compared to the same period last year, costs increase 5%, operating margin expand to 18.4% and net profit up 39% -- 12% ahead of consensus estimates. The company won a further $815m of new orders and reported a 4% increase in headcount.

- **Qualcomm reported 3Q results** which included stronger operating margins than expected and, in their outlook, the company suggested operating margins could improve further to 30%. Earnings per share were 14% higher than consensus expectations. In part, this might be attributable to tighter supply of chips sets which limits some competitive pricing pressure. Nevertheless, the company looks well-positioned for the 5G technology cycle and the company pointed to strong growth in the automotive business and in internet of Things (IoT).

- **Novatek Microelectronics reported second quarter profits** that were 3.8x higher than the same (trough) period last year on revenues that were 1.8x higher than a year ago. The company has continued to surprise the market with margin strength and in its latest results it reported gross margin of 50.3% compared to 43.6% in the prior quarter and 33% in the same periods in 2019 and 2020. The question now, which has weighed on the share price this year, is the extent to which this can be sustained into 2022.

Outlook

The mid-year company reporting season is just getting underway. So far portfolio stocks have got off to a good start. As we have also seen in recent months, markets have been 'jumpy' on news flow and while that persists, we think that focusing on businesses that are doing well operationally, and delivering growing dividends funded by growing cash flows should afford some comfort. The aggregate portfolio valuation is still running at a 20% discount to the market and so alongside the return we expect to see from profits and dividends, we believe there is also room for valuations to expand.

The rotation to Value from Growth earlier in the year was confined to quite a narrow segment of cyclical companies, financials and distressed businesses. However, the performance of Growth over Value has been so pronounced in recent years that it would appear investors remain reluctant to relinquish the style. To put it another way, there are some good companies out there, that are increasing cash flows and profits steadily that do not fully accord with the Growth style and therefore, are still cheap in our view.

Edmund Harriss
Mark Hammonds
Portfolio Managers

Data sources

Fund performance: *Financial Express, total return, in GBP unless otherwise stated*

Index and stock data: *Bloomberg*

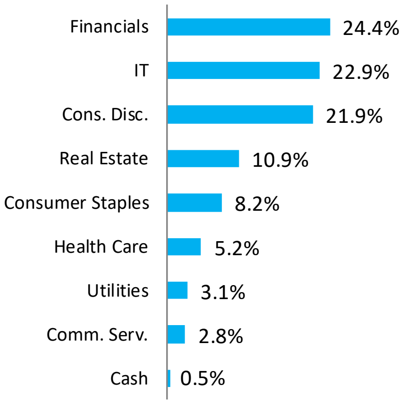
PORTFOLIO

31/07/2021

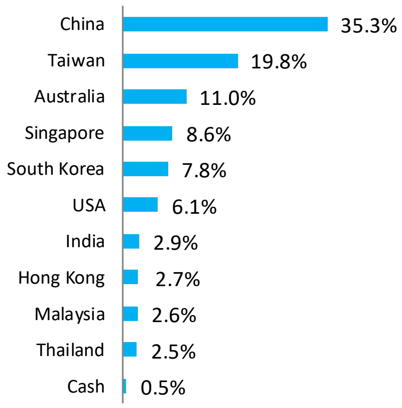
Fund top 10 holdings

Novatek Microelectronics	3.9%
Qualcomm	3.1%
China Resources Gas Group	3.1%
Nien Made Enterprise	3.0%
Corporate Travel Management	3.0%
CapitaLand Integrated Commer	3.0%
Aflac	3.0%
Tech Mahindra	2.9%
Elite Material	2.9%
China Merchants Bank	2.8%
% of Fund in top 10	30.7%
Total number of stocks in Fund	36

Sector analysis



Geographic allocation



PERFORMANCE (Past performance does not predict future returns)

31/07/2021

Discrete years % total return (GBP)	Jul '21	Jul '20	Jul '19	Jul '18	Jul '17
Fund (Y class, 0.89% OCF)	22.3	-11.1	4.7	7.4	21.2
MSCI AC Pacific ex Japan Index	11.8	2.8	5.7	5.9	25.8
IA Asia Pacific ex Japan	18.6	0.5	6.8	5.1	23.3

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.89% OCF)	-4.0	5.6	22.3	13.8	48.2	116.9
MSCI AC Pacific ex Japan Index	-8.0	-3.3	11.8	21.5	61.8	102.1
IA Asia Pacific ex Japan	-5.7	0.4	18.6	27.3	64.9	112.0

Annualised % total return from launch (GBP)

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

31/07/2021	Index	Sector	Fund
Alpha	0	1.55	2.31
Beta	1	0.89	0.86
Information ratio	0	0.18	0.16
Maximum drawdown	-26.36	-24.54	-24.84
R squared	1	0.95	0.84
Sharpe ratio	0.40	0.48	0.49
Tracking error	0	3.50	6.20
Volatility	15.47	14.17	14.59

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, 0.89% OCF). Fund launch date: 19.12.2013. Fund returns are for share classes with a current Ongoing Charges Figure (OCF) of 0.89%; 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 in English from www.guinnessfunds.com or free of charge from:-

- the Manager: Link Fund Manager Solutions (Ireland) Ltd (LFMSI), 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.

LFMSI, as UCITS Man Co, has the right to terminate the arrangements made for the marketing of funds in accordance with the UCITS Directive.

Investor Rights
A summary of investor rights in English is available here: https://www.linkgroup.eu/policy-statements/irish-management-company/

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.