Guinness Asian Equity Income Fund

INVESTMENT COMMENTARY – October 2021

Launch date	**19.12.2013**
Team	**Edmund Harriss** (manager) **Mark Hammonds** (manager) **Sharukh Malik**

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.

This is a marketing communication. Please refer to the prospectus and KIID for the Fund before making any final investment decisions.

Performance (in GBP)

30/09/2021

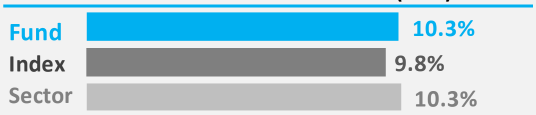
Past performance does not predict future returns

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	18.7	14.6	-8.6
Sector	20.0	15.8	-9.8

	YTD	1 year	From launch
Fund	4.1	15.3	114.1
Index	-0.8	11.8	107.8
Sector	1.9	15.5	115.0

Annualised % total return from launch (GBP)



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0	1.8	2.2
Beta	1	0.9	0.9
Info ratio	0	0.3	0.1
Max drwdn	-26.4	-24.5	-24.8
Tracking err	0	3.5	6.4
Volatility	15.5	14.1	14.5
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%, in GBP, 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.

ELITE RATED by FundCalibre.com

Fund & Market

Performance

In **September**, the Fund fell -2.6% (Y share class, in GBP) compared to the MSCI AC Pacific ex Japan Net Total Return Index benchmark which fell -2.5%.

- Value stocks, as measured by the MSCI AC Asia Pacific ex Japan Value Net Total Return Index, fell -1.1% (in GBP) and Growth stocks fell -2.7%.
- High dividend stocks as measured by MSCI AC Asia Pacific ex Japan High Dividend Net Return Index fell -1.1%.

In the **Third Quarter**, the Fund outperformed the market but fell -5.3% (in GBP), compared to the benchmark which fell -8.4%.

- Value stocks fell -4.2% (in GBP) and Growth stocks fell -7.9%.
- High dividend stocks fell -2.2%.

Over the **Year to date** (ending 30 September) the Fund has given up some of its earlier gains and is up 4.1%, but remains 7.8% ahead of its benchmark (Y share class, in GBP).

Portfolio characteristics and positioning

We focus on high quality dividend-paying stocks with strong balance sheets that we think offer attractive value relative to the market.

- The weighted average Return on Equity for the portfolio was 22% compared to 11% for the market, as measured by the benchmark index.
- Debt, as measured by Net debt (Debt less cash) as a proportion of equity was 6% compared to 36% of the market.

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- The portfolio valuation, as measured by the price/earnings (P/E) ratio was 10.1x next year's consensus estimated earnings, and is at a 24.6% discount to the market PE of 13.4x.

- Historic 5-year compound average annual growth rate (CAGR) in historic earnings per share for the current portfolio (2015 to 2020) was +5.4% compared to the benchmark index -3.8%.

- If we factor in the consensus estimated 2021 earnings rebound, the 6-year earnings CAGR (2015 - 2021E) for the Fund is expected to be 7.0% vs the index 4.6%.

The portfolio is overweight to the real estate (predominantly real estate investment trusts, REITs), consumer discretionary, financials and consumer staples sectors and is underweight to communication services, materials, industrials and energy. The portfolio is market weighted to technology, utilities and health care.

At a country level the fund is overweight to Singapore, Taiwan and India, and has an off-benchmark exposure to US stocks generating significant revenues from the region. The Fund is underweight to South Korea, Australia, China and Hong Kong.

Dividends

In the second half of the calendar year, 23 portfolio companies are expected to declare dividends. The other 13 companies declare dividends only once a year (bullet payments) and do so in the first six months of the calendar year.

During the third quarter, in line with their timetables, 19 companies declared dividends. In local currency terms:

- 14 companies increased
- 3 were unchanged
- 1 fell
- 1 omitted

We put a brief comment below on each of the companies that reported results over the period.

Outlook

We expect that uncertainties surrounding inflation, interest rates, supply-side disruptions together with political and fiscal challenges arising from government support efforts over the last two years are likely to provide a headwind for market valuations, which is to say the price/earnings (P/E) ratio. When we consider the prospects for total shareholder returns (TSR) we think that earnings and dividends are likely to be more important contributors to total shareholder return while valuations (the P/E) could be a drag.

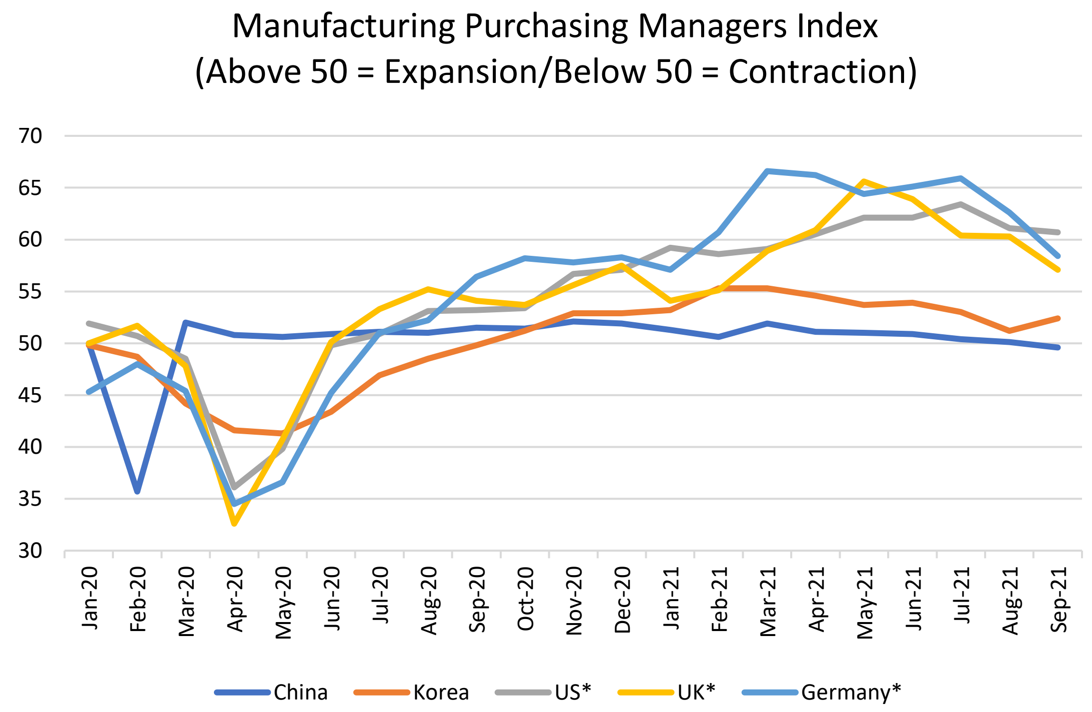
We have noted above that historic earnings per share over the past 5 years for the portfolio of companies we hold have been more resilient rising at a compound average growth rate (CAGR) of 5.4% per annum between 2015 and 2020, compared to the market as measured by the MSCI AC Pacific ex Japan Index which delivered earnings CAGR of - 3.8% per annum. When we look at consensus earnings estimates for 2021, we see a +58% rebound in market earnings is expected following a -21.6% decline in 2020. Portfolio earnings are expected to increase +15.7% for the Fund following a rise of +1.6% in 2020. The result is a 6-year earnings CAGR (2015-2021) of +7.0% for the portfolio and +4.6% for the market.

The assorted macro-economic and regulatory challenges which we discuss in the review below, affect different companies in different ways. We maintain a focus on companies that are less dependent on factors beyond their control. Higher input costs for example, can be offset by greater production efficiency or improved product offerings which can also deliver pricing power. Earnings resilience delivered by good quality management and well-financed companies is what we seek and this earnings resilience is something that we think will take on increasing importance for stock price performance. Asian regional stock market valuations are now close to their long run averages on a forward estimated basis. The Fund valuation is at a 24% discount to the market, and we think that represents a good long-term opportunity.

Quarter Review

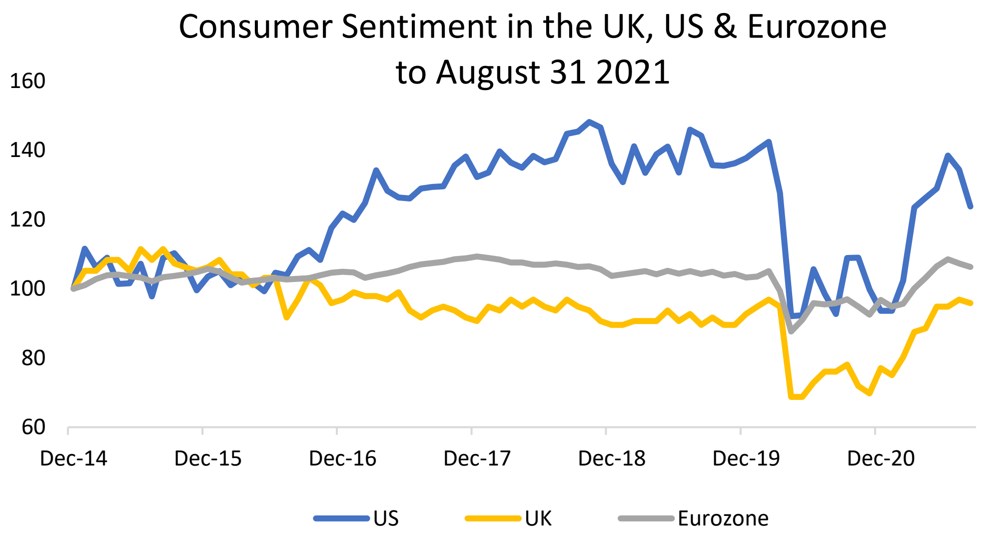
Macro review

We are all aware of supply disruptions and surging energy costs in recent months. The sharp recovery in industrial demand has caught upstream suppliers of coal to silicon chips by surprise. These supply shortages have been compounded by logistical dislocations and all amount to an environment of rising costs. The charts below, which we have updated from previous quarters, show how the operating environment has developed.



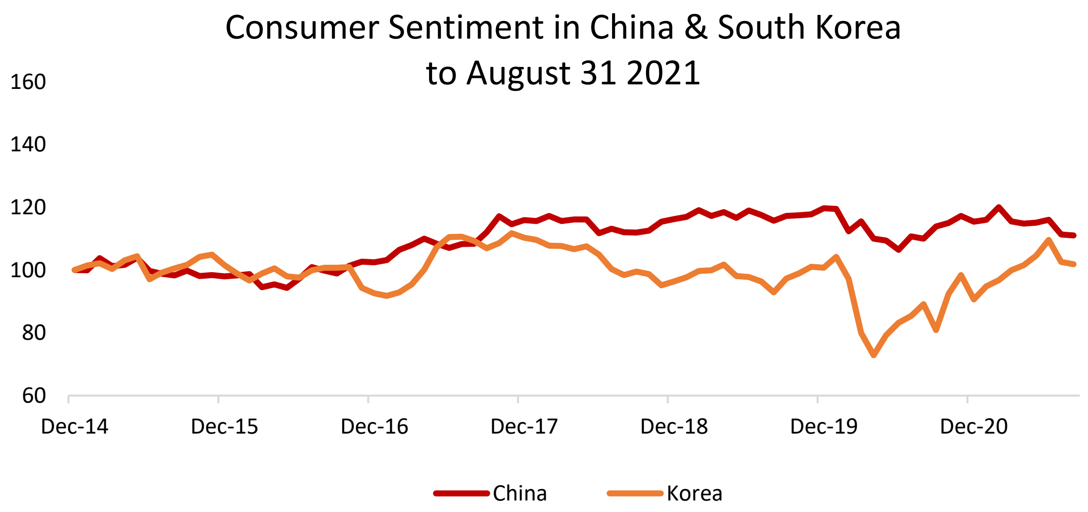
*Sources: China - National Bureau of Statistics; Korea, US, UK, Germany – Markit. Data to 30 September 2021. * denotes estimated September figure.*

Industrial confidence as measured by the Purchasing manager Indices have been on a downward trend since the end of June but are still in expansionary territory in the developed markets. German industrial confidence has been dented by the shortage of chips which hampers its sizeable automotive sector and by the rise in natural gas prices. Industrial confidence in the US is down a little but appears in fact to be holding up. In China, rising coal prices have presented a unique challenge; electricity prices are regulated but coal prices are not and so electricity generators are forced to operate at a loss. This has led, inevitably to supply shortages, especially in the North-East.



Sources: US - Conference Board; UK - GFK; Europe - European Commission. Rebased to Dec 2014 = 100, Guinness Asset Management calculation.

Consumer confidence in developed markets was still very positive but this data only runs to the end of August and so does not include the impact of recent energy price moves. Chinese consumer confidence has been on a gradually declining trend since March. This is consistent with weaker car sales since May and tighter controls on real estate prices.



Sources: China - National Bureau of Statistics; Korea - Bank of Korea. Rebased to Dec 2014 = 100, Guinness Asset Management calculation

Inflationary pressures are for the most part being driven by higher commodity prices with costs of energy, oil-based products, copper, iron ore, timber and cotton all on the rise. And this has collided with increased business confidence. This has pushed producer price inflation (the prices manufacturers pay for their materials) higher and the rate has increased since the end of June in each of the markets shown below.

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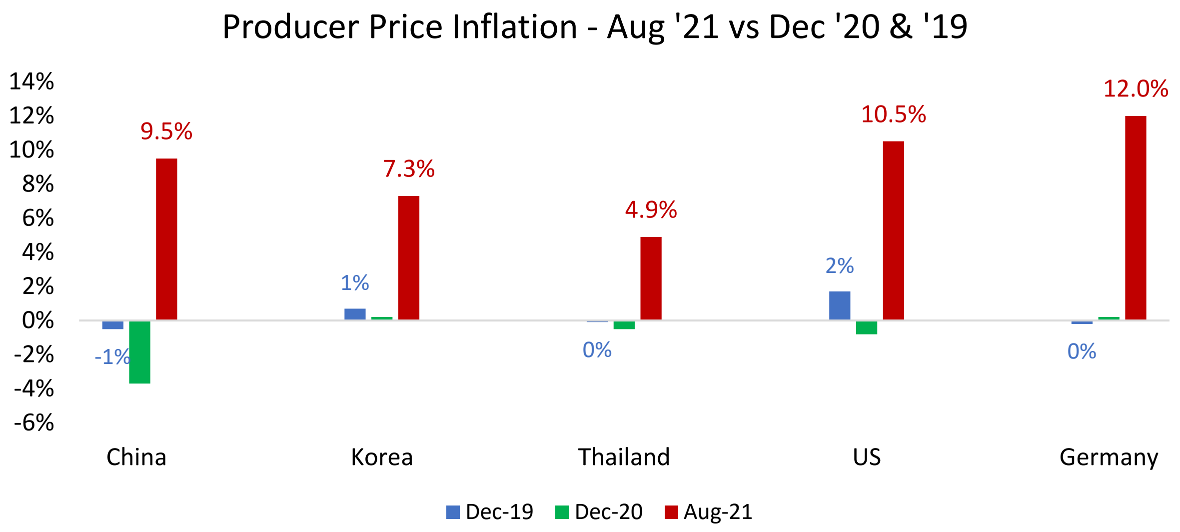
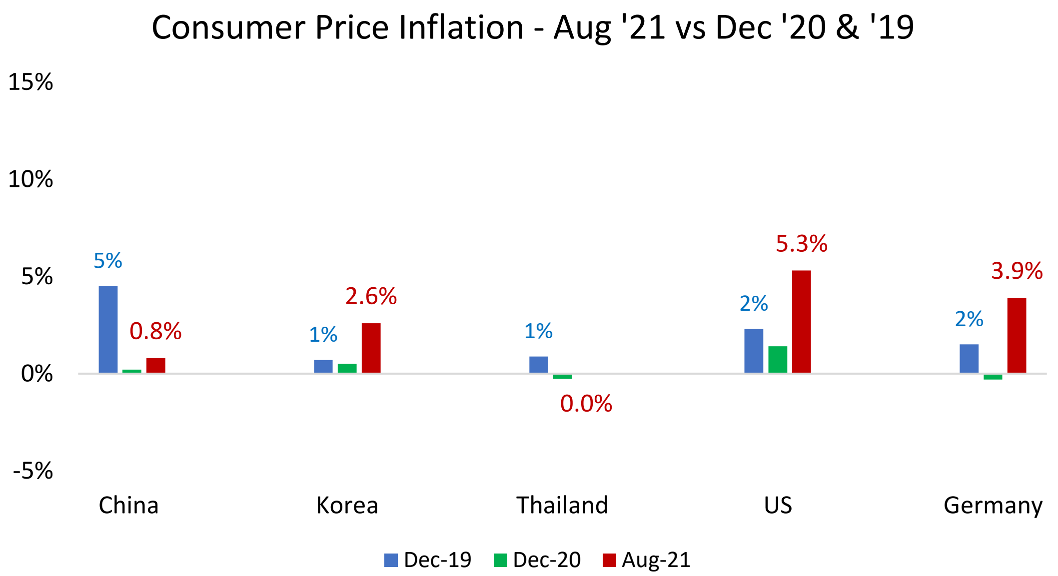


Sources: China National Bureau of Statistics, Statistics Korea, Thailand Ministry of Commerce, US Bureau of Labor, German Federal Statistics

Rising cost price inflation has fed through into western consumer prices but is not as pronounced in Asia. In South Korea, inflation at 2.6% does not seem so worrying on the surface but it is a sharp jump compared to the pre-pandemic rate in 2019. South Korea has the highest level of household debt in Asia at 105% of GDP and property prices, especially in Seoul, have been hitting new highs. This appears to be behind the recent (surprise) decision by the Bank of Korea to raise interest rates by 0.25% in August to 0.75%. China's CPI inflation rate is heavily influenced by food prices, which accounts for the high rate in 2019, but PPI inflation has yet to feed through into core consumer price inflation.

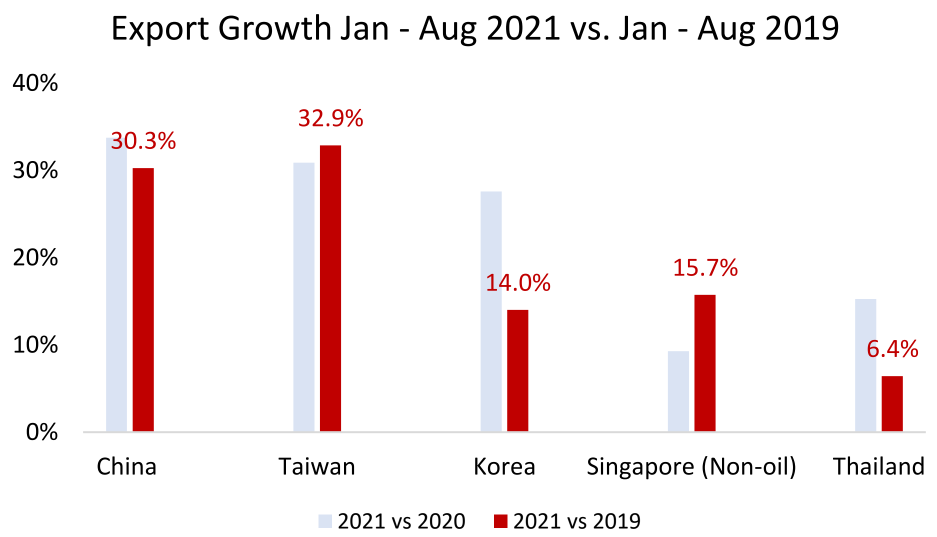


Sources: China National Bureau of Statistics, Statistics Korea, Thailand Ministry of Commerce, US Bureau of Labor, German Federal Statistics

Trade remains the big growth engine in Asia. Chinese trade incorporates a significant component of consumer goods bound for the US and European markets, although the growing diversity of products and markets has diluted this concentration over the past ten years. Nevertheless, a decline in consumer demand remains a risk. But this year China's trade is not only 304% higher than 2020; it is also 30% above pre-pandemic levels.

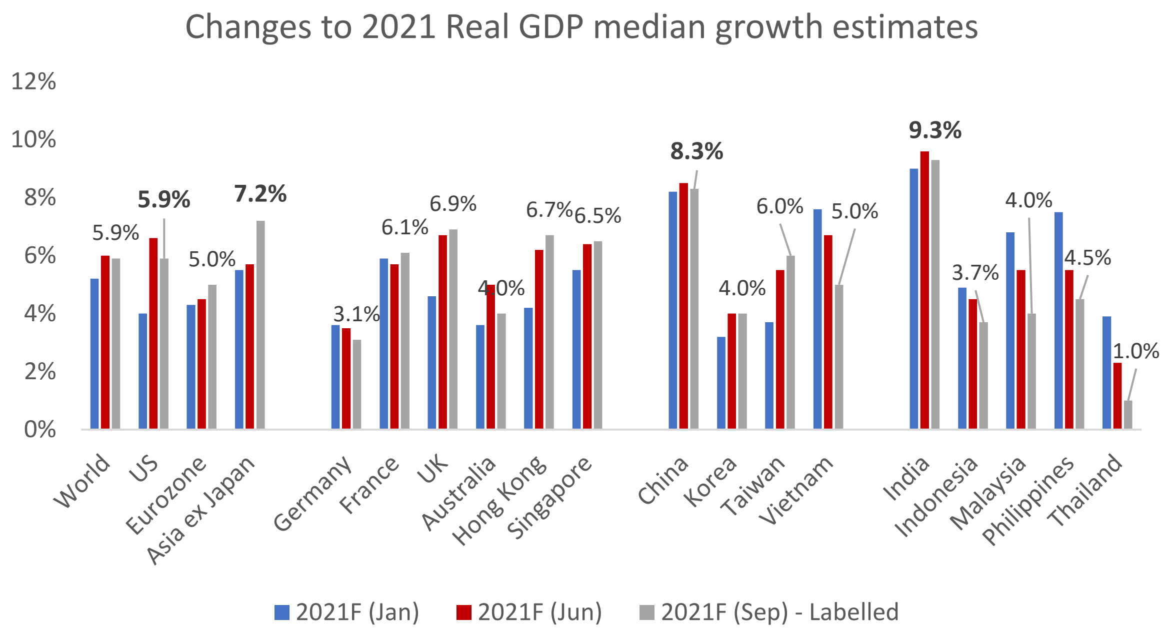
South Korea offers one of the most diversified export profiles of any country in the world, ranging from household appliances through to petrochemical plant, high quality steel and ships. Trade growth has been slower than China and Taiwan as a result of supply shortages which have affected the production especially of household appliance and cars.

Technology has however been a bright spot in Korea and it is most evident in Taiwan for which it constitutes the bulk. Given the ongoing pressure on the supply of chips, Taiwan's excellence in technology manufacturing and the pricing power it can therefore command suggest, in our view, that Taiwanese export growth is set to remain strong.



Sources: China Customs, Taiwan Ministry of Finance, Korea Ministry of Trade, Enterprise Singapore, Bank of Thailand

Median economic growth forecasts have come down somewhat since the last quarter. The US economic growth median estimate has been shaved back to 5.9% from 6.6% in June, back to where it was in March. China's growth forecast has been trimmed to 8.3% from 8.5%. China growth trajectory however, needs to be acknowledged even if we do not fully trust the numbers. Tighter real estate prices and regulatory controls on debt accumulation targeted at the real estate and construction industries are causing activity to slow and have already prompted lower growth expectations in coming quarters. Reported electricity outages associated with higher coal prices could add to that if they persist; but it should be noted that supply problems are also the result of regulation which could be amended to deal with short-term issues.

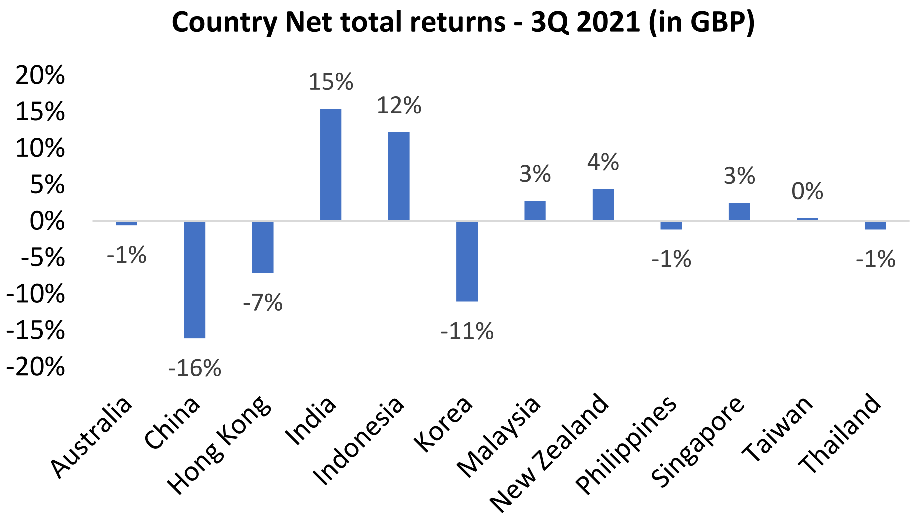


Source: Bloomberg. New estimates as of 30 Sept 2021

Asian markets review

This was a generally weak quarter with declines in July and September. August ended the month almost unchanged following a brief resurgence of growth stocks at the end of the month. In Asia, China and Korea led the way lower pulled down by the Communications serves and Consumer Discretionary sectors. India has had a strong quarter with it heaviest-weighted sectors (Staples, Energy, Financials and Technology) all doing well.

The charts below show the country and sector performances over the second quarter:



Source: Bloomberg. MSCI Country Index performance data as of 30 September 2021

Sector performance is shown in the chart below:

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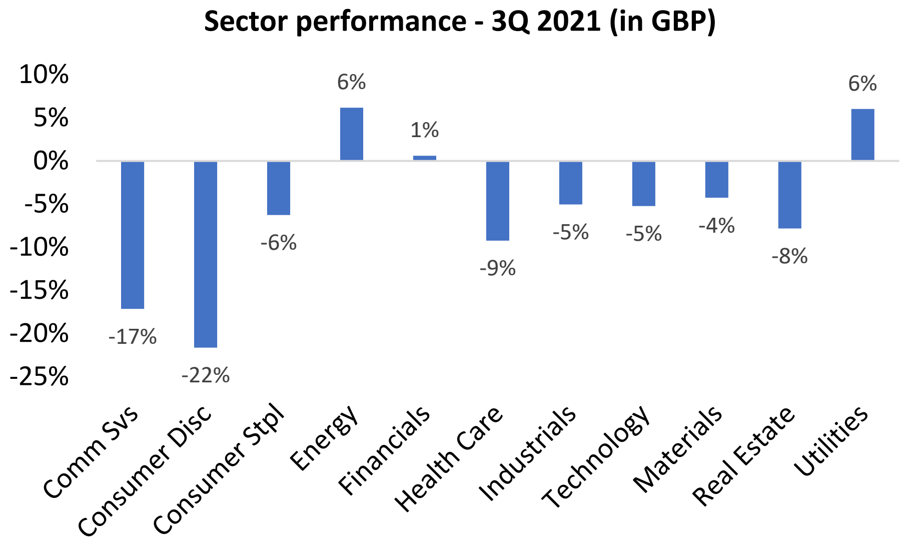
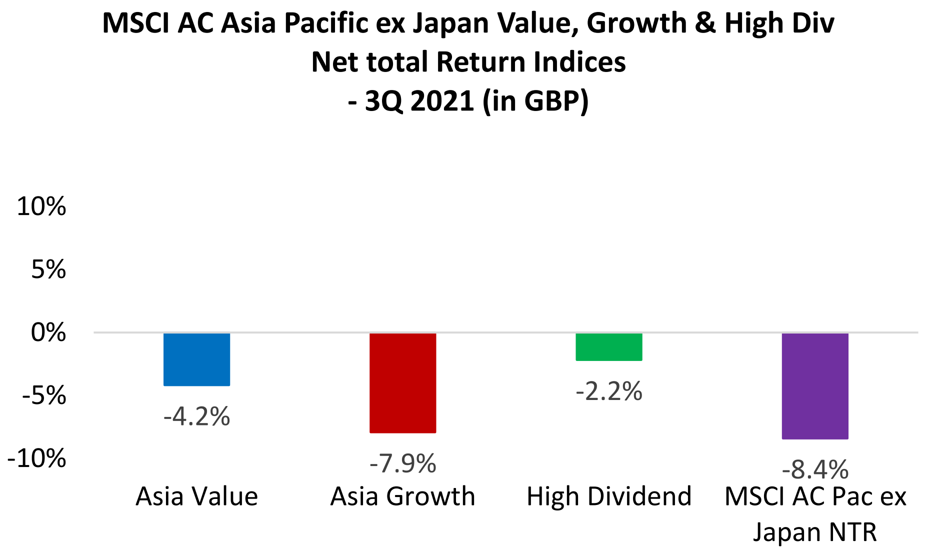
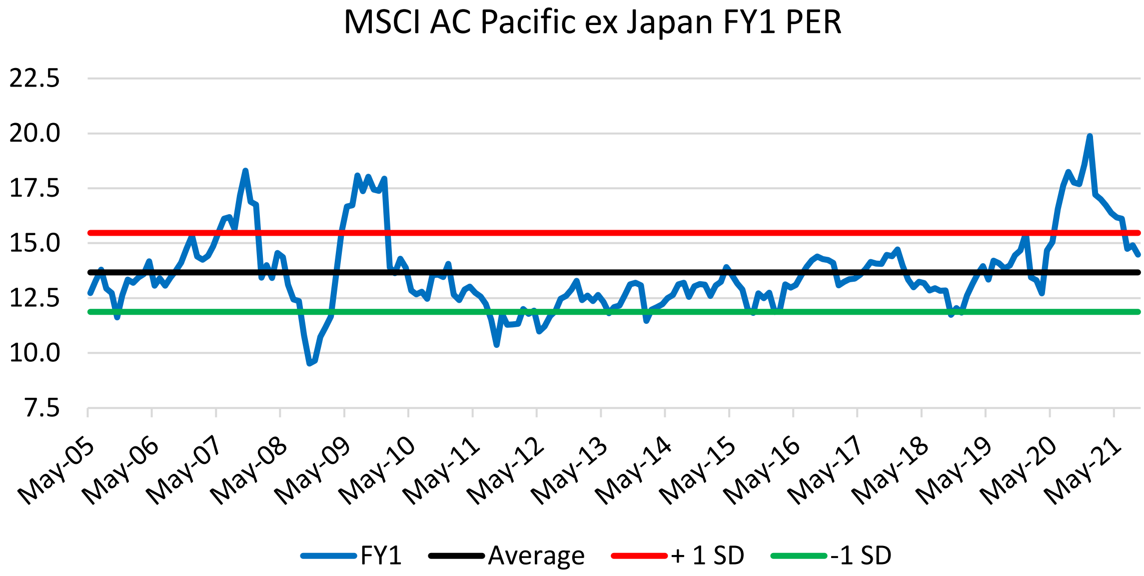


Source: Bloomberg. MSCI AC Pacific ex Japan sector performance data as of 30 September 2021



Source: Bloomberg. Data as of 30 September 2021

Asian market valuations as measured by the MSCI AC Pacific ex Japan Index are now well below the highs reached at the end of 2020, following the surge in Growth stocks. The market is now trading on 12-month forward Price earnings (PE FY1) multiple of 14.5x consensus estimated earning, just 6% above the average since 2005. (+/- 1 SD means one standard deviation either side of the average which is where statistically, the values fall two thirds of the time).



Sources: Bloomberg consensus earnings estimates, MSCI, Guinness Asset Management. Data as of 30 September 2021

Stocks review

Performance

The chart shows stocks' performance over the quarter with Tech Mahindra, an Indian IT services provider, well out in front. The weakest performance came from Suofeiya Home Collection on concerns surrounding the financial health of one of its largest customers, real estate conglomerate China Evergrande. This could affect up to 20% of Suofeiya's accounts receivable against which it has already made some provision.

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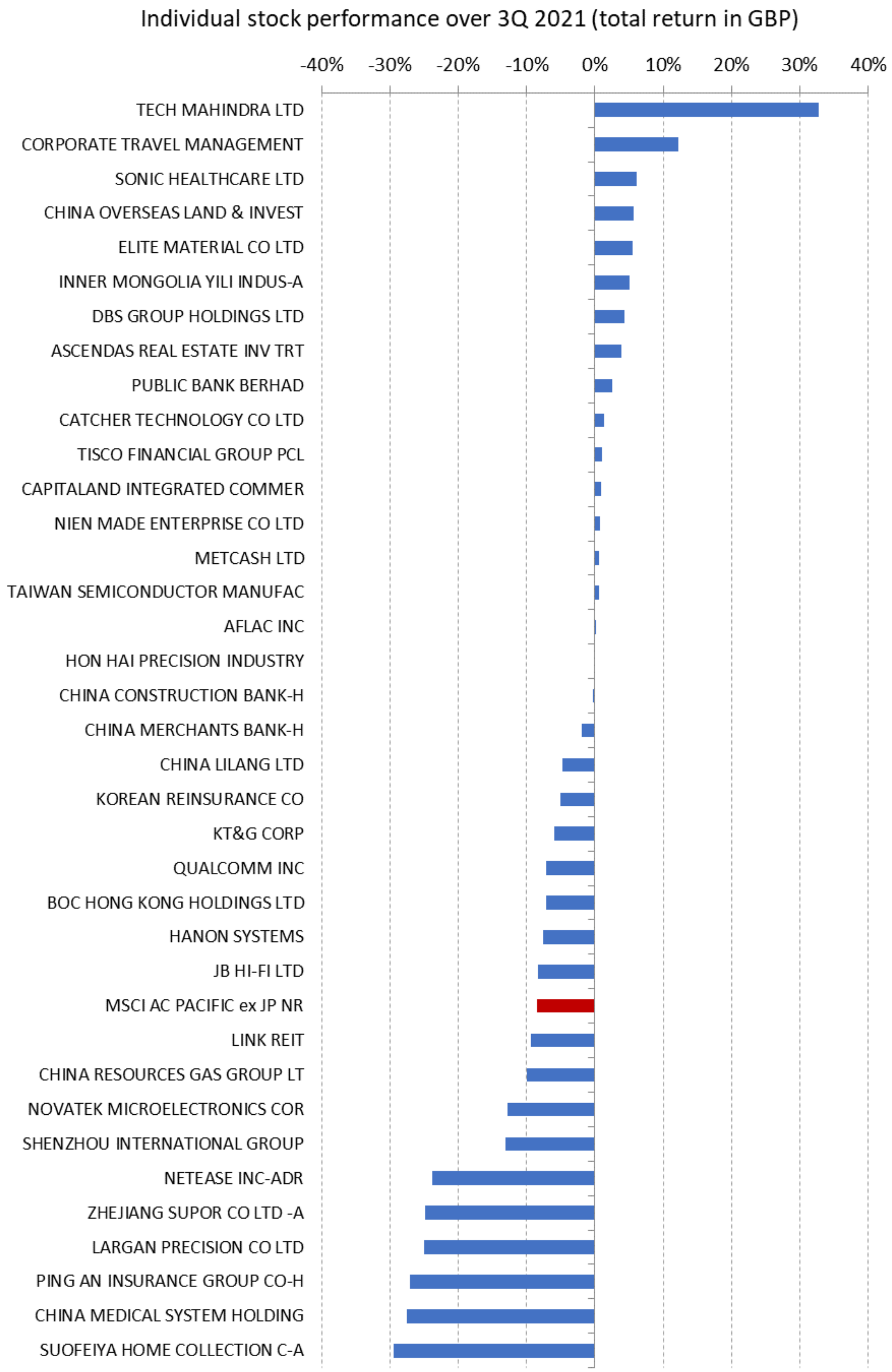

Sources: Bloomberg, Guinness Asset Management. Data as of 30 September 2021.

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Results & Dividends over the quarter

We provide below a brief comment on the twenty-eight companies that reported final, semi-annual or quarterly dividends during the period, ordered from highest growth to lowest:

- **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.

- **Ascendas REIT announced results for the first half (1H21)**, with a distribution up 5.4% year on year (YoY). Growth has come from acquisitions: European data centres, two office buildings in San Francisco and an Australian business park. Positive 3.8% rental reversions last year have also contributed to results. Management is seeking further acquisitions in logistics and data centres in the UK, Europe and US.

- **BOC Hong Kong reported 1H21 results** slightly below market expectations. Net profit was 17% lower partly due to a contraction in Net Interest Margin to 1.08% form 1.13% in 2H20 and partly down to a high base comparison for trading gains last year. Fee income growth was solid, up 22% and a decline in credit costs associated with bad debt. Lower margins have meant the bank has been among the weaker performers among the large Hong Kong banks, but its capital strength and market position leaves it better placed in our view for a post-COVID recovery on the back of ongoing market share gains in loans and deposits as well as its position to benefit from further development of the Bond Connect scheme. The interim dividend was maintained unchanged from 2020 but is still 18% below that of 2019. The market is however, forecasting a decent pick-up in the 2H21 dividend which will be declared next year.

- **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 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 in are now at 86.3% of pre-pandemic levels but office returns are still low at 20.6%.

- **Catcher Technology reported results for the second quarter 2021 (2Q21)** that included weaker than expected sales growth and net profit but a sequential improvement in gross margin. The company sold its smartphone casing business last year and it will take time for new business channels in automotive, healthcare and 5G consumer device thermal solution to contribute meaningfully. The main contributions now come from Notebook and Tablet demand, which remains strong for now although component shortages have restricting supply which resulted in slower sales in the past quarter.

- **China Construction Bank reported 2Q21 results** that were ahead of market expectations with net profit up 24% YoY. Net interest margin was unchanged at 2.13% but was better than its peers while improving asset quality reduced the need for further provisioning and improved existing bad debt coverage. Non-performing Loan (NPL) ratios dropped in almost all segments bar real estate (up 0.25% compared to last year) and mining which rose 4.7%; but these rises were more than offset by improvements in loan quality to manufacturing, transport, retail & wholesale as well as personal lending.

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- **China Lilang reported 1H21** revenue recovery continued, rosing 23.9%, but still 12% below the same pre-pandemic period in 1h19, and net profit up 0.9%. Gross margins were strong, rising 10% to 49.5%. However, selling expenses increased due to the business model switch in 2H20 from franchise to self-operated distribution which, combined with store renovations, pushed store operating expenses higher. Lilang continues to optimise its 2,708-store portfolio closing 53 stores and opened 18 in quality malls. The company completed renovations on 100 stores in 1H21 and plans to complete 400 more in 2H21. The company declared a dividend of HK$0.18 per share, 6% higher than 2020 but still 30% below 2019.

- **China Medical System reported another good set of results** for 1H21 with revenue up 23.6% YoY and net profit up 27.2% YoY. Dividend per share rose 25.5%. Direct sales of medicines grew strongly, led by sales of cardio-cerebrovascular products (heart disease/stroke), which account for over half of that division's revenue, up almost 30%. The digestion line, accounting for 34% of divisional revenue, rose 26% followed by 46% growth in ophthalmology (eyes) and 54% growth in dermatology. The company has been developing new business lines and began independently operating its dermatology and medical aesthetic business this year. The division employs 500 people, acquired a 65% stake in carnation, which operates an ultrasound technology platform and began a collaboration with EC Healthcare to establish a divisional marketing operation. Finally, its programme of new products, focusing on delivery methods, rather than new compounds, remains on track and the company expects its Diazepam Nasal Spray (for anxiety disorders & muscle spasms) and Tildrakizumab solution for injection (for eczema/psoriasis) to be approved in 2022.

- **China Merchants Bank reported second quarter profits** up 32% YoY and pre-previsioning operating profit (PPOP) up 18.5%. Fee income growth of 24% benefitted from strong growth in AUM in the asset management business. Fee income and a growing retail franchise, especially in Private Banking and High Net Worth have been supported by growing demand deposits (a cheap source of funding) and investment in technology are the main growth drivers for this business. The bank's net interest margin was 2.46%, the ratio of non-performing loan to total loans was 1.01% and these are more than 4x covered by provisions.

- **China Overseas Land & Investment (COLI) reported 1H21 results** with core net profit (excluding the effects of investment property revaluation and FX) up 2%, in line with expectations. The interim dividend was held at HK$0.45 in line with 2019 and 2020. At the time of writing the stock offers a yield of 6.6%. The Chinese real estate sector can be a worrying sector, but COLI is easily the best positioned in our view. It has the lowest debt ratios of its peers (Debt to equity 67%, net debt to equity 33%) and its investment grade credit rating, also the best in the sector, gives access to the lowest cost of funding at 3.6%. COLI's business is property development with 40% of its landbank in Tier 1 cities (Beijing, Shanghai, Hong Kong etc) and in urban renewal projects. The stock offers a combination of strong balance sheet, good market position, and a stabilizing margin trend that suggests earnings growth is likely to track sales growth more closely.

- **China Resources Gas increased net profit** in the first half up 35.6%, largely in line with expectations and helped by a strong rebound of 29.5% in gas sales volumes. New residential connections in the first half were 1.3m, with management guiding for at least 3.2m for the full year. Margins in the period were stable but may see some pressure in the second half from high LNG prices. Capex guidance increased slightly for the year, due to an increased M&A budget as the company expects acquisition opportunities to materialise.

- **Corporate Travel reported results** for the second half of their financial year (June year end), marked by a return to profitability at the EBITDA level. June was a post-Covid record month, despite it typically being seasonally weaker. The company has gained market share recently in a struggling sector – for CTM volumes are currently around 40% of pre-Covid levels (this is significantly higher than some peers). CTM is benefitting from the higher vaccination levels in the US and UK, which account for a large proportion of revenues. Cost cutting efforts earlier in the pandemic leave the company well placed for profits to rebound sharply as activity picks up again.

- **DBS announced good results for the second quarter** despite a contraction in net interest margin to 1.45%. However, a 27% increased in fee income, cost control, better asset quality that meant a 91% drop in provisioning expenses combined to deliver a 37% increase in net profit. The news that the Monetary Authority of Singapore had lifted its restrictions on bank dividends allowed DBS to reinstate the full dividend to S$0.33 from S$0.18. New NPL formation has fallen back to pre-pandemic levels in contrast to their peers. Investment in technology over the last few years has enabled the bank to generate income from more sources while keeping a lid on costs and expenses through better risk management and greater efficiency.

- **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.

- **Hon Hai Precision reported 2Q21 profits** that were a little better than consensus forecasts. Sales were up 20% versus a weaker comparison period in 2020. Growth in the short term is related to the production of the iPhone 13 but with tight component supply this is unlikely to come before the 4Q21. Gross margin expansion is likely to pause in the short term at around 6% but management expects a resumption next year driven by a wider product mix. Management is talking about an EV market worth $600 billion from which they target a 10% share by 2025 and a 10% gross margin. However, there needs to be greater clarity on how this is to be achieved before this can start to be priced into the stock.

- **Hanon reported second quarter results** that were impacted by the shortage of computer chips at its US and European customers. Increased raw materials costs for the company's components were also a drag, impacting operating margins by around 1%. The outlook for the second half, however, is good, with a recovery expected as chip shortages decline and continued expansion of electric vehicle sales (EV revenues currently contribute around 21%). New orders have also been strong, with management increasing annual new order guidance by 10%.

- **JB Hi-Fi reported full year results for FY21**. Sales were up 12% in JBH Australia, up 13% year on year in comparable terms. Sales growth versus FY19 was 26%. The Good Guys division continues to benefit from a strong housing cycle, with revenues up 13.7% year on year. Final dividend of A$1.07, equates to total dividend for the year of A$2.87, up 52%.

- **Korean Re reported a decent set of results** for the second quarter, net profit declined by 13%, but importantly, underwriting performance was strong with the combined ratio of 97.7% marginally improved from 97.9% in the prior year. The company has a good track record of lowering underwriting volatility each year, implying good allocation of capital. Given the underwriting performance, strong performance in the investment segment could result in a higher level of profits distributed as dividends.

- **KT&G reported results that missed** expectations on lower margins. Exports in particular were weaker, and the pandemic continues to impact domestic (Korean) duty free sales. Increased roll-out of heat-not-burn products, which continues, should improve investor sentiment over the rest of the year.

- **NetEase reported a good set of results for 2Q21.** Revenue was up 13% YoY. Online gaming revenue, which accounted for 70% of total revenue, rose 5% YoY which without a new game and coming against a high base for comparison, was encouraging in our view. Innovative businesses (which includes advertising and NetEase Cloud Music) accounted for 20% of revenue and rose 26% YoY. Youdao, the search engine business saw revenue more than double. Net income was down 20% YoY, pulled down by FX translation losses and higher R&D and marketing expenses. Excluding the FX loss, net profit fell

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10% YoY. The dividend came in at US$0.24 per share, a drop of 20% in line with reported net income. Recent news that China is clamping down further on game time for younger children is expected to have little impact given management's disclosure that less than 1% of revenue comes from this group.

- **Nien Made reported results for the second quarter**, with gross profit margin of 53.9% beating consensus expectations of 51.9%. Offsetting gross margins was a large FX loss, which lowered net income growth to 2% year on year. Management is seeing increases in commodity prices leading to inflation; however, is passing this on with higher prices for both custom-made and ready-made products in the second half.

- **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 the 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.

- **Ping An Insurance Group reported interim results for 1H21** that were better than forecast with net book value and operating profit above expectation. The dividend was increased by 5%. The value of new business in the life insurance segment dropped significantly as a result of declining first year premiums and lower margins. This is consistent with Ping An's drive to reduce the number of sales agents but to increase productivity, which remained unchanged on last year but with an 11% lower headcount. This lies behind the improvement at the operating profit level. Property & Casualty however, was a highlight with credit and guarantee insurance leading the way resulting in a Combined ratio (Costs and expenses divided by revenues earned) falling to 95.9%, thereby increasing profits. Another strong contribution from Ping An Bank and the announcements of a share buyback makes for a good set of results.

- **Public Bank reported 1H21** net profit rose 25% YoY. Operating profit before the provision charge against non-performing loans was 36.2%. A deterioration in asset quality was evident, especially in the second quarter and management has turned more cautious. Nevertheless, to place this in some context, the ratio of NPLs to gross loans is only 0.35%. Steady loan growth, good cost control and cheaper funding costs are all supportive. Net interest margins have expanded to 2.15% from 1.99% in 2020 while the ratio of costs to income declined to 31.6% compared to 34.6% in 2020. The dividend increased by 14% above the same period in 2019, having omitted in the same period in 2020. (The omission was 'made good' earlier this year.)

- **Qualcomm reported 3Q results** which included strong 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).

- **Shenzhou reported 1H21 earnings that were down 11% YoY.** If the impact of foreign exchange movements was excluded, net profit would have been flat. We are still very positive on the stock with volume growth up 14% with sales to Puma, Uniqlo and Nike up 39%, 22% and 12% respectively. Efficiency gains and increased production volumes on a solid order outlook has prompted the company to increase the dividend pay-out ratio to 60% resulting in an 18% dividend increase. Production in Vietnam remains hampered by Covid and this is prompting the company to build more integrated facilities in other overseas markets.

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- **Sonic Healthcare reported strong 2H21 results** having received a significant boost from COVID testing revenue. Revenue for the full year, ended June 2021, was A$8.75 billion, up 28% YoY, of which COVID testing contributed A$2.1 billion. Earnings per share rose 141%. The dividend increased 8% and this moderate rise reflects the desire for more merger and acquisition activity, in recognition that Covid-related revenue will subside, and that permanent value creation will have to come from expansion.

- **Suofeiya Home Collection reported 1H21** sales that rose 69% YoY and net profit that increased 30% YoY. In 2Q, revenue grew 42% lifted by increased sales to property developers, which can quickly lift scale, and to a recovering wardrobe business through an increased number of distribution partnerships. Margins however, contracted 3.1% during the second quarter due to this change in channel mix and due to more promotion of Milanla, the lower-end brand. The stock is trading at trough valuations and the reason is the risk of a write down in some of its accounts receivable. Exposure to Evergrande, a highly indebted real estate developer undergoing restructuring, was CNY 194 million with a bad debt provision of only CNY 9 million. There is therefore downside risk to earnings of around 12% if the balance is written off, something we think is more than priced in.

- **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.

- **Tisco Financial reported a good set of 2Q21 earnings** which were up 25% compared to last year. Higher net interest margins, lower bad debt charges and steady gains from treasury operations all contributed. Tisco remains a high asset-quality franchise and in maintaining that quality it has experienced a decline in loan market share. That said, it has also been diversifying its business in fee generating businesses, including asset management. Thailand has been heavily affected by COVID with low rates of vaccination and lower confidence on re-opening. This could delay a further price re-rating but in the meantime, we think that returns on capital, profits and dividends can still grow.

- **Zhejiang Supor reported results for the first half of 2021.** Revenue rose 27% and net profit increased by almost 30% on greater cost control, increased pricing power. Gross margin on domestic sales recovered to 31.7%, the pre-pandemic level. Export sales were also strong, up 68.6% compared to the same period last year. Most of these sales are to its parent, French-owned SEB whose sales to North America rose 66% year-on-year with rising market share, and to Western Europe which rose 22%. Higher raw materials costs affected revenues from export sales because products were not re-priced. That is likely to change during the second half and into 2022 pushing gross margin on this segment up from 14% in the last reported period back toward 18%.

Portfolio review

Changes

There were no changes to the portfolio in the quarter.

Positioning

At the end of the quarter, the main country overweight positions were in Singapore and Taiwan (India and the US are not in the benchmark); the main underweight positions were to China and South Korea.

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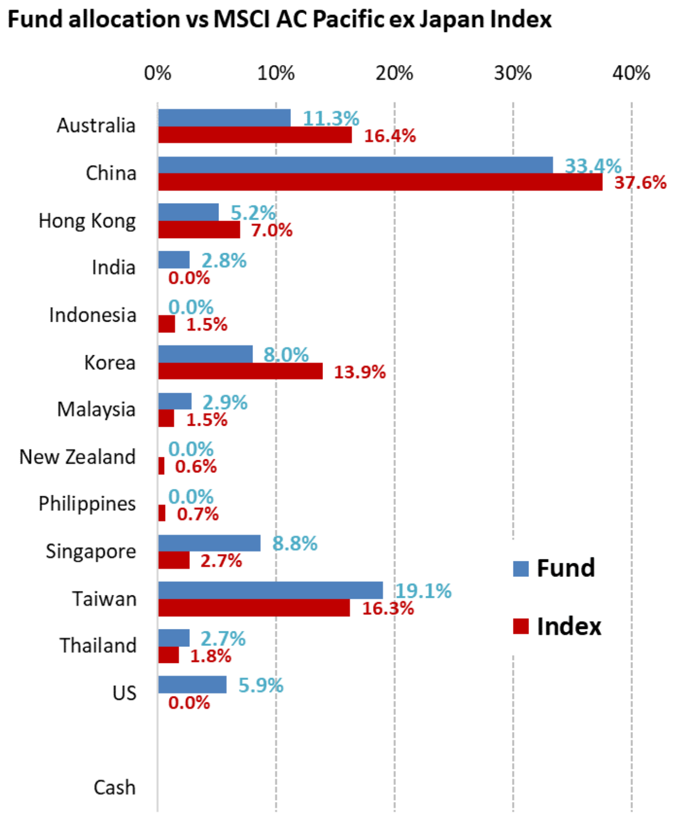
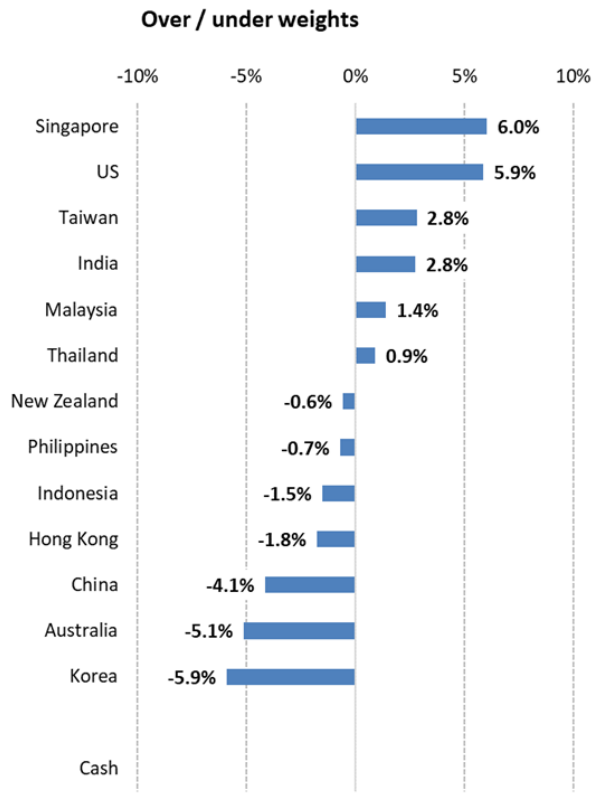
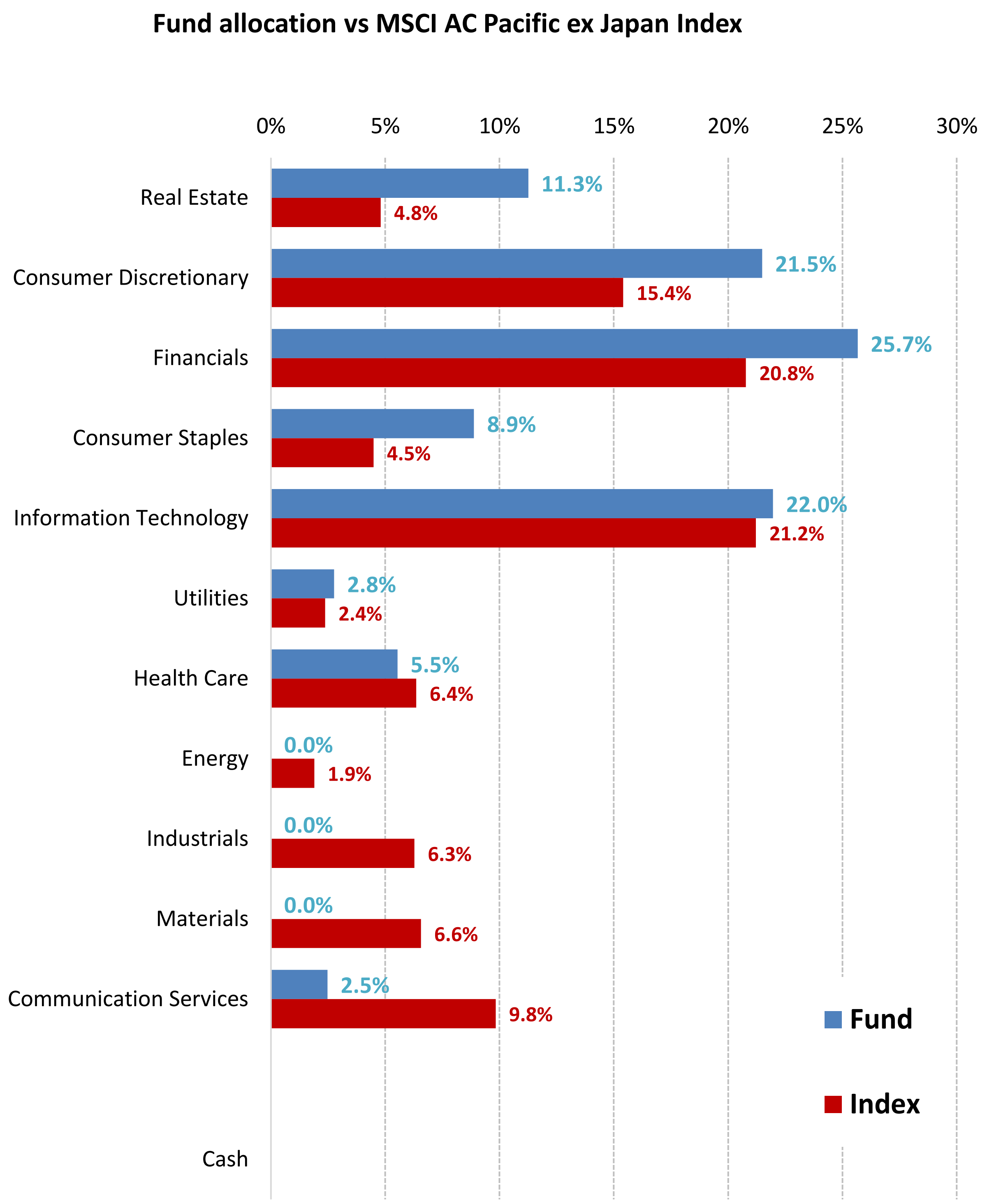




Sources: MSCI, Bloomberg, Guinness Asset Management. Data as of 30 September 2021

On a sector basis, the main fund overweight positions were in Real estate (4 positions: 3 Real Estate Investment Trusts and 1 Developer), Consumer Discretionary and Financials (made up of banks and insurers). The main underweight positions were in Communication Services, Materials and Industrials.



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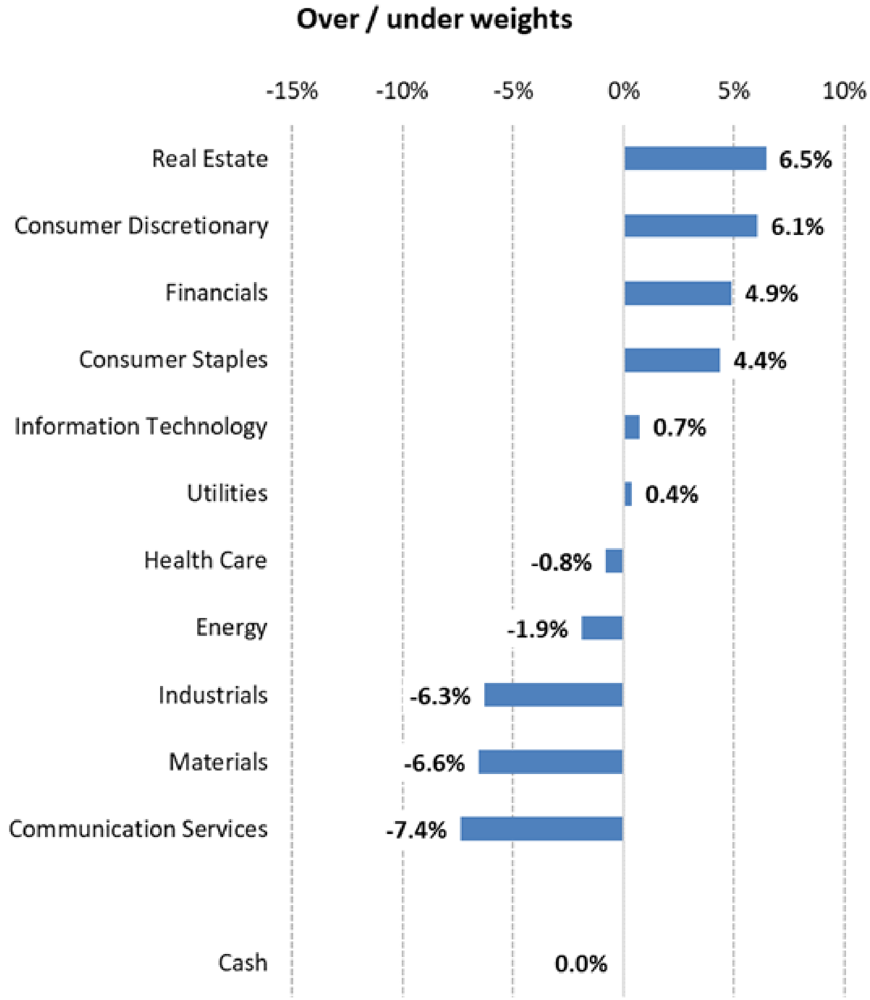

Sources: MSCI, Bloomberg, Guinness Asset Management. Data as of 30 September 2021

Edmund Harriss
Mark Hammonds
Portfolio Managers

Data sources

Fund performance: *Financial Express*

Index and stock data: *Bloomberg*

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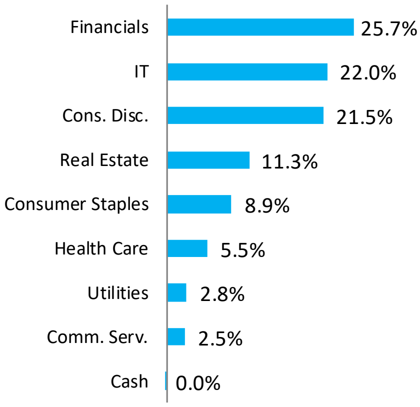
PORTFOLIO **30/09/2021**

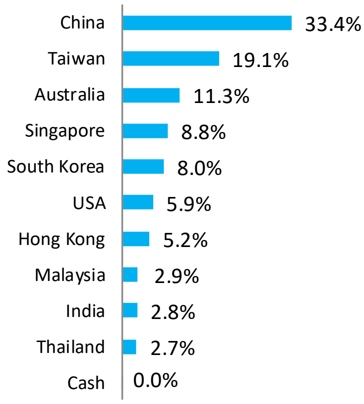
Fund top 10 holdings

Inner Mongolia Yili Industrial	3.4%
China Merchants Bank	3.1%
Corporate Travel Management	3.1%
Catcher Technology	3.0%
Aflac	3.0%
CapitaLand Integrated Commer	3.0%
Elite Material	3.0%
DBS Group Holdings	2.9%
Sonic Healthcare	2.9%
China Construction Bank	2.9%
% of Fund in top 10	30.3%
Total number of stocks in Fund	36

Sector analysis



Geographic allocation



PERFORMANCE (Past performance does not predict future returns) **30/09/2021**

Discrete years % total return (GBP)	Sep '21	Sep '20	Sep '19	Sep '18	Sep '17
Fund (Y class, 0.89% OCF)	15.3	-4.6	2.1	6.7	15.7
MSCI AC Pacific ex Japan Index	8.3	9.5	3.4	5.0	17.4
IA Asia Pacific ex Japan	15.5	8.1	5.6	3.8	15.7

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.89% OCF)	-2.6	4.1	15.3	12.3	38.6	114.1
MSCI AC Pacific ex Japan Index	-2.6	-3.7	8.3	22.5	51.1	101.1
IA Asia Pacific ex Japan	-1.3	1.9	15.5	31.9	58.5	115.0

Annualised % total return from launch (GBP)

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

30/09/2021	Index	Sector	Fund
Alpha	0	1.77	2.22
Beta	1	0.89	0.85
Information ratio	0	0.25	0.14
Maximum drawdown	-26.36	-24.54	-24.84
R squared	1	0.95	0.83
Sharpe ratio	0.37	0.47	0.46
Tracking error	0	3.51	6.35
Volatility	15.47	14.14	14.49

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.