Guinness Asian Equity Income Fund

INVESTMENT COMMENTARY – November 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) 31/10/2021

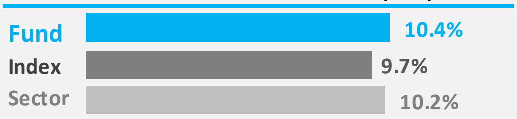
Past performance does not predict future returns

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	5.7	17.3	117.3
Index	-3.3	6.1	101.9
Sector	1.8	6.1	114.8

Annualised % total return from launch (GBP)



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0	1.7	2.4
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	6.3
Volatility	15.4	14.1	14.4
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

- The Fund's outperformance versus the benchmark in 2021 widened further in October. From the start of the year to 31st October, the Fund's Class Y shares were up 5.7% in GBP (12.0% in EUR and 6.0% in USD).

- Strong performance came as portfolio companies reported results which were generally better than expected.

- As China concerns have heightened, we are pleased to report that the Fund's China exposure outperformed both China and regional indices, led by strong performances from China A-share companies Inner Mongolia Yili (dairy) and Zhejiang Supor (cookware), and from NetEase.

- The Fund's exposure to 5G technology, especially through Qualcomm, TSMC, Tech Mahindra and to a lesser extend Elite Material, made a positive contribution.

- Our Singapore REIT exposure, especially CapitaLand Integrated Commercial Trust, had a strong month as Singapore has re-opened.

- Asian markets were led by a rebound in Communication Services and Consumer Discretionary, although these remain well down for the year to date. At a country level, most MSCI country indices were up 2% to 4% in USD terms with only India and Korea in (marginal) negative territory. China stocks, as measured by the MSCI China Index, were up but it is still the weakest performer in Asia this year, down 14% in USD.

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

Events

- China's private real estate developers are still under financial pressure as authorities push their debt-reduction agenda and this is having an effect on construction activity, property prices and near-term economic growth.

- While associated economic data continues to weaken, there are signs of easing: property price curbs are being rolled back; the central bank has urged commercial banks to continue to support developers' finances; and the local bond markets, having been closed off to developers in recent years, may soon become available as a funding channel.

- Inflation in the region is moving higher, but mostly for producer (manufacturing input) price inflation. In China, this has hit 13.5%, while in Korea, Taiwan and Thailand it remains elevated, between 6.5% and 7.5%. Consumer prices are rising modestly: China CPI is 1.5% while Taiwan, Singapore, Malaysia and Thailand hover at 2.2% to 2.5%. Only Korea, at 3.2% shows some signs of pressure, hence its early move to raise interest rates in August.

- US inflation at 6.2% YoY was the shock. Food prices up 5.3% and energy prices up 30% were big drivers, but urban consumer price inflation, excluding these factors, is still closing in on 5%. As a result, there is focus on Federal Reserve policy (tapering of bond purchases and the timing of interest rate increases).

- Malaysia's central bank is looking forward to a rebound in activity as COVID restrictions ease. The latest sign is the opening of a vaccinated travel corridor with Singapore.

Market Review

Energy and food prices continue to exert upward pressure on **inflation** in Asia, just as in the US (food up 5.3%, energy up 30% year-on-year). The broadening out of inflation into other sectors (US Consumer ex Food & Energy rose 4.6%) intensifies the focus on the policy response. Western consumers are beginning to take notice. In China, Consumer Price Inflation (CPI) is up but still modestly so at 1.5%, and Core inflation (excluding food & energy) is steady at 1.3%. Producer Price Inflation (PPI) however hit 13.5%, the highest since November 1995 when PPI was on its way down from 20% – but China was very different then. Korean PPI is at 7.5% while in Taiwan and Thailand it is 6.5% to 7%. Korea CPI reached 3.2%, a 10-year peak but in line with the 2001-12 average. Singapore, Thailand and Malaysia reported CPI of 2.2% to 2.5%, elevated but not significantly so.

There is a growing sense in the market that we may soon see some countercyclical easing in **China** after the Evergrande squeeze. Property measures, designed to curb prices, are being relaxed in some provinces. The central bank has urged the large commercial banks to maintain funding to the sector and more recently there is talk of local bond markets reopening to the developers. China's economic data points look set to slow further in October and this may mark a moment in policy shift.

The **RMB** has been noticeably stronger in recent weeks, and some have wondered if given the slowing economic backdrop we may see another RMB devaluation move as we saw in 2016. We think the key difference this time is the strength of the trade balance ($560bn for the first ten months of 2021), which is approaching 2015's record, and a lower services deficit, which together push the current account surplus higher. Capital flows have also been augmented by foreign direct investment, which at $164bn for January to September 2021 are already ahead of recent years' full 12-month flows. Speculation does not appear evident. At the same time, Evergrande notwithstanding, the financial sector appears stable.

The performance of the Fund picked up noticeably in October, in both absolute and relative terms, as our portfolio companies reported results. We are happy to report that this has continued into November.

We provide a brief commentary below on the companies that have reported in October.

Stocks review

- **Aflac**'s recent third quarter results showed strong margins and earnings that were significantly higher than market forecasts. However, in a recurring theme, sales were weaker and this has potential implications for the longer term. Some one-off factors lifted earnings but even excluding these, strong margins alone would have secured a beat. Management has expressed its confidence by announcing a 21% increase to 2022's dividend, where the market had forecast a 15% rise.

- **China Construction Bank** reported results for the third quarter, with profits up 16% year-on-year. Pre-previsioning operating profit (PPOP) was up 9% year-on-year. Asset quality is stable, with the non-performing loan ratio slightly down from the previous quarter. Fee growth at 5% year-on-year was relatively muted.

- **China Merchants Bank** reported results for the third quarter, with profits growing 21% year-on-year. Pre-provisional operating profits (PPOP) were up 16%. Net interest margin was stable, slightly above the previous quarter. Fee income growth was strong at 12% year-on-year, with contributions from the wealth management business, asset management, custody and bank card fees. The non-performing loan ratio declined over the quarter.

- **Elite Material** continues to shine, reporting a record set of quarterly results with revenue growth of 13% and gross margin of 28.6%, over 1% better than the previous high. Multiple growth drivers from servers, handsets and data centres and increasing market share keep the 2022 outlook positive.

- **Inner Mongolia Yili Industrial (A)** reported that third-quarter revenue rose 9%, operating income rose 21% as the operating expanded by 1% to 10.4%, and earnings per share was up 15%. On a two-year compound average growth rate basis, Yili grew its sales and core OP by 10% and 20% respectively. The main surprise is expansion in gross margin despite rising milk costs.

- **Largan Precision** reported results for the third quarter that missed expectations. Earnings were up strongly quarter-on-quarter due to seasonal factors, but gross margin dipped below 60% on weaker product mix. Competition in the mid-range specification lens market has been tough, leading to pressure on prices. The company has also been affected by disruption in the camera module supply chain in Vietnam. An upgrade cycle next year, with manufacturers increasing specifications, should benefit the company. In particular a lens upgrade from Apple would likely lead to stronger demand in the second half.

- **Novatek Microelectronics** reported results for the third quarter with revenue up 12% on the previous quarter. Gross margin of 51.9% was above the guided range of 49-51%. Management has suggested that gross margins could decline a little next quarter on rising foundry costs (to the benefit of TSMC, therefore) and the market has yet to be convinced how well they can hold up. There are plenty of positives, including market consolidation and a positive demand outlook, but in the short term, supply worries prevail.

- **Ping An Insurance** reported results for the third quarter that were in line with expectations. Net profit for the first nine months is down 20.8%, but this is largely due to the challenges in the life insurance business that have been highlighted previously. As an indication of the speed at which the business is being restructured, the agent headcount was reduced by 20% in the quarter, leading to improvements in agent productivity. Within agents, those recognised as 'diamond' status have remained stable on a headcount basis yet improved productivity 20%. Management is thus seeking to improve the quality of its agent workforce while it restructures, with retention and training initiatives.

- **Suofeiya Home Collection (A)** reported third-quarter revenue up 15%, operating income up 12% and earnings per share up 14%. Gross margin fell 2.9pp to 35.8% on higher materials costs but the fall in operating margin was limited and fell only 0.6% to 17.6%. On channel strategy, management expects the retail and furnishing channel to drive growth, while taking a more conservative stance towards the developer channel in order to diversify client mix and control risks. In the retail channel, management expects growth to come mainly from (1) improvement in same-store-sales via increasing average spend and (2) expansion of new brands (such as new mass brand Milana).

- **Tech Mahindra** reported results for the second financial quarter that beat expectations. Revenues in constant currency were up 7.2% quarter-on-quarter, with 6.4% organic growth. Net new deal wins were down 8% in the quarter to US$750m, but this is up 78% year-on-year, reflecting the strong demand environment. EBIT margins were flat at 15.2%. Higher staff expenses, including subcontractors, remain a headwind. Special dividend of Rs15 per share was announced.

- **Tisco Financial** reported results for the third quarter that reflect a tough operating environment. Declining automobile sales, partly due to a shortage of vehicles, has put pressure on Tisco's financing business. Positive steps taken recently to reopen Thailand to tourism should help boost the economy, leading to improved consumer demand. Credit costs fell significantly, suggesting early signs of a recovery. The company has also managed operating costs well given the conditions faced.

- **TSMC** reported results for the third quarter with gross margin coming in better than expected. Management also increased long-term guidance for gross margin to 50% or higher. Capacity is very tight for the rest of this year and into next year, and the company is having success at passing on price increases to its customers (with further price hikes expected next year). Management is expecting inventory levels to remain high as customers seek to maintain security of available supplies. Management also confirmed a new plant is to be built in Japan, offering chips for speciality applications (likely automotive controllers and image sensors). The project is being supported by a key customer and the Japanese government, and the plant is likely to commence operations in 2024.

- **Zhejiang Supor (A)** reported third-quarter revenue up 2%, operating income down 7% and earnings per share down 8%. In a separate announcement, the company revised up related-party sales with SEB (its French parent) by Rmb363m to Rmb7,028m (+5% higher than the previous target), 29% higher than last year, reflecting robust exports sales. Management commented that after two years of strong export growth due to COVID, they expect export growth to normalise in the coming years. By comparison, domestic demand was weaker in Q3 compared to the previous quarter. Management mentioned that offline sales declined likely due to impacts of the resurgence of COVID cases and weather disruptions.

Outlook

In the portfolio, consensus estimated earnings growth over 2019 to 2022 is 8.8% per annum, compared to 10.1% for the market. While the Fund's level is lower (though it should be remembered the companies are paying out just over 50% of the earnings in dividends), our companies are tending to meet or beat expectations. Furthermore, investors are not being asked to pay up, or over-pay, for these stocks. The Fund is trading at a 20% discount to the market, on Price/Earnings multiples of only 11.6x 2021E earnings and 10.5x 2022E earnings, compared to the benchmark which is trading on 14.7x and 13.7x consensus estimated earnings.

Edmund Harriss
Mark Hammonds
Portfolio Managers

Data sources

Fund performance: *Financial Express*

Index and stock data: *Bloomberg*

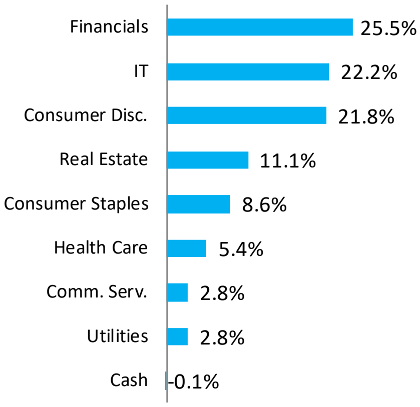
PORTFOLIO

31/10/2021

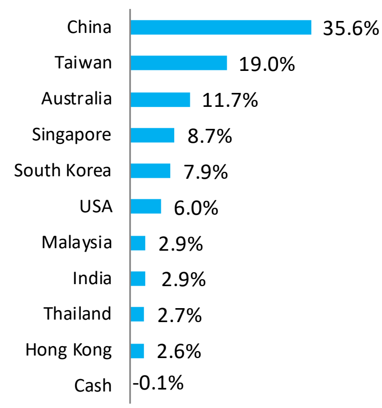
Fund top 10 holdings

Elite Material	3.2%
Corporate Travel Management	3.1%
Aflac	3.1%
Inner Mongolia Yili Industrial	3.0%
Zhejiang Supor	3.0%
China Merchants Bank	3.0%
Ascendas Real Estate Trust	3.0%
Public Bank Bhd	2.9%
Sonic Healthcare	2.9%
Qualcomm	2.9%
% of Fund in top 10	30.1%
Total number of stocks in Fund	36

Sector analysis



Geographic allocation



PERFORMANCE (Past performance does not predict future returns)

31/10/2021

Discrete years % total return (GBP)	Oct '21	Oct '20	Oct '19	Oct '18	Oct '17
Fund (Y class, 0.89% OCF)	17.3	-4.0	10.3	-6.6	16.4
MSCI AC Pacific ex Japan Index	6.1	13.2	12.2	-8.6	17.8
IA Asia Pacific ex Japan	13.5	11.2	14.3	-9.8	16.3

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.89% OCF)	1.5	5.7	17.3	24.2	35.0	117.3
MSCI AC Pacific ex Japan Index	0.4	-3.3	6.1	34.8	45.2	101.9
IA Asia Pacific ex Japan	-0.1	1.8	13.5	44.3	51.5	114.8

Annualised % total return from launch (GBP)

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

31/10/2021	Index	Sector	Fund
Alpha	0	1.71	2.35
Beta	1	0.89	0.85
Information ratio	0	0.23	0.16
Maximum drawdown	-26.36	-24.54	-24.84
R squared	1	0.95	0.83
Sharpe ratio	0.38	0.47	0.48
Tracking error	0	3.51	6.34
Volatility	15.41	14.08	14.43

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.