Guinness Asian Equity Income Fund

INVESTMENT COMMENTARY – December 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)

30/11/2021

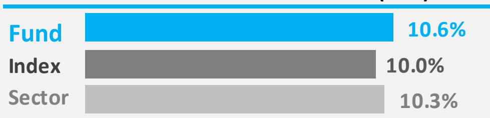
Past performance does not predict future returns

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	8.4	11.6	122.9
Index	-4.3	-0.6	100.0
Sector	1.1	5.8	113.4

Annualised % total return from launch (GBP)



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0	1.8	2.8
Beta	1	0.9	0.9
Info ratio	0	0.3	0.2
Max drwdn	-26.4	-24.5	-24.8
Tracking err	0	3.5	6.4
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

- Asian markets retreated in November with the fund's benchmark, MSCI AC Pacific ex Japan Index down 1.0% in GBP.

- In the fund, 24 out of 36 holdings outperformed, with the top five stocks rising between 14% and 39% while the bottom five fell between 5% and 12%.

- The MSCI China Index continued to be weak, dragged down primarily by the Consumer Discretionary sector, which encompasses the large e-commerce names, and by Energy and Real Estate. The fund's Chinese exposure still outperformed, led by NetEase, Zhejiang Supor (A) and China Overseas Land & Investment.

- The fund's exposure to 5G technology, especially through Qualcomm, and Tech Mahindra and to a lesser extent Elite Material, Novatek Microelectronics, made positive contributions in October and gained significantly in November. Qualcomm led the way, rising 39.9% in GBP terms.

- Australia, Korea and Singapore were the areas of greatest weakness during the month, focused specifically on Corporate Travel in Australia, Hanon Systems in Korea, and in Singapore, Ascendas REIT and DBS were the weaker names.

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

- Consumer price inflation pushed higher in the US, reaching 6.2%, and in Europe.
- Powell was re-appointed as Chairman of the US Federal Reserve.
- Biden signed a $550 billion infrastructure bill, not as large as originally envisaged, but still significant.
- For most of the month, markets were pricing in expectations of US interest rate increases and faster slowdown of bond purchases (i.e. faster tapering). Views at the end of the month changed, again.
- At the end of the month, a new COVID variant renewed pandemic fears.
- European efforts to stem new COVID cases, even before the emergence of the new variant, have seen more draconian rules emerging in Austria, Belgium, Germany and the Netherlands.
- Private real estate developers in China remain a hotspot as the Evergrande saga continues. Other developers including Aoyuan, Kaisa and Shimao are also under pressure.
- Oil prices eased from a peak spot price for Brent crude of $85 barrel to $70. Copper prices remain elevated, while iron ore has come back down to 2019 levels, ending the month at $94 per tonne (for 62% fine ore) compared to a July peak of over $200.

Market Review

China's economic growth rate is decelerating, and we are now seeing more supportive policy action. There are two aspects to this story: there is the inflationary challenge posed by higher energy and materials costs as well as supply chain disruption, and there is the impact of China's focus on debt reduction in the real estate sector.

Policy makers in China have been concerned for many years by the rising levels of debt in the non-financial corporate sector and the most significant component of that is the real estate development sector. This group has for many years been restricted from borrowing in the domestic bond markets and has therefore relied heavily on bank borrowing and bond issuance in the offshore US dollar bond market. In 2020 the government 'got serious' and drafted what the state media dubbed 'The Three Red Lines'. These imposed three thresholds:

- Liabilities cannot exceed 70% of total assets (which excludes proceeds from sales of properties yet to be completed and delivered to the buyer)
- Debt (less cash) cannot exceed 100% of equity
- The cash balance must be at least equal to short-term borrowing (meaning any loans due in 12 months are covered)

Those companies that fall within those three thresholds are permitted to increase borrowing by 15% over the prior year. Those that exceed those thresholds cannot. This brings us to Evergrande. Evergrande, along with a number of other developers, has pursued an unrestrained debt-led model for many years with the assistance of investors in the US dollar bond market who presumably felt that the higher coupons amply compensated for the credit risk because, presumably, the government would not permit such a large enterprise to fail. The three red lines have caused this merry-go-round to stall abruptly. Our view is that not only is Evergrande likely to fail, but it must fail if the Chinese government and central bank are ever going to wean the country from its reliance on and access to debt.

How this failure is engineered and managed is of course critical. Cash-strapped developers that are no longer able to increase debt are now obliged to sell inventory to raise cash. The timing of these sales is now no longer tailored to market conditions but is tied to a debt maturity schedule. And inevitably, bond investors are finding out that that the debt-schedule includes not only the public bonds but also includes the private loans and guarantees they didn't know about and perhaps did not check. The effect of this on the real estate market has been to lower participation in land auctions (to the benefit of those that are in a position to buy) and to cap or push down house/apartment prices. This latter effect is also seen as desirable; one of the sources of inequality in Chinese society has been high property prices and is therefore a target of President Xi's common prosperity doctrine. But fall too fast, and declining property prices could dash consumer confidence, put off future buyers, freeze transaction volumes and ultimately undermine cash raising for debt servicing and collateral values for debt security. So policy makers must walk a line.

In recent days and weeks we have seen policy makers move in line with our expectations. As economic data on investment, construction and property have slowed commercial banks have been told not to cut credit/refinancing lines to 'good companies'; buying and mortgage restrictions have been eased at the local level; the central bank has released liquidity into the money markets by again cutting the proportion of deposits that banks must place with the central bank, allowing them to increase lending. This counter-cyclical easing comes at a time when inflation pressures are beginning to emerge. Producer prices have been elevated for much of this year while consumer prices in October rose only 1.5%; but the current market estimate for November is for a 2.5% year-on-year increase.

China's macro-economic management story, over the 27 years I have followed it, has been one of 'squeeze and release' with concomitant investor reactions of deep gloom to euphoria. At present, the view is one of gloom, which places China stocks firmly in value territory. The reality is that while certain sectors and industries are financially weak, the economy is a whole is well capitalised and resourced. The banking system is liquid, interest rates are stable, the currency is strong and the trade balance is approaching the record of over $600 billion for the year. China's merchandise trade was $2.9 trillion in 2010; in the first 11 months of 2021 it was $5.5 trillion. If trade is good, the banking system is well capitalised, and money flows and interest rates are stable, then China has the resources to bring about economic and financial change without toppling the entire edifice. Our job is to identify those businesses that are flourishing or are at the forefront of that change.

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

Stocks review

- **Catcher Technology** reported results for the third quarter which were behind market forecasts, largely on component supply shortages. Gross margin improvement accelerated, increasing over 3% to 35.4%. Most of the business still comes from notebook customers and management reiterated that its business diversification lies in automotive, 5G telecom thermal solutions and medical devices.

- **DBS** share price weakness at the end of November followed a service outage in the bank's digital services, into which it has invested heavily, over a three-day period. The Monetary Authority of

Singapore has expressed concern. Third quarter results beat market forecast following a write-back of some of the provisions against bad debt last year that have not materialised.

- **Hanon Systems** results for the third quarter were affected by supply shortages, rising freight costs and high raw materials prices. The production issues at key clients General Motors and Ford have been most pronounced. Higher costs can be clawed back through pricing in coming quarters. The outlook for the EV business remains robust and management has upgraded its e-compressor sales volume target by 35% to 6m units by FY2025.

- **Hon Hai Precision**'s third quarter results showed margins and core profit in line with expectations and net profit that was 14% above consensus estimates driven by non-operating income and a lower tax rate. The company's EV business is gaining momentum as more partnerships come through with existing car manufacturers, and the company plans to enter mass-production of EV trucks in collaboration with Lordstown Motors (a small Ohio-based manufacturer) in the second half of 2022 – a year earlier than expected.

- **Korean Reinsurance** has benefitted from higher pricing in the reinsurance market this year. Third quarter results were ahead of market expectations with a 32% increase in investment income and a significant improvement in domestic commercial underwriting. Overseas underwriting was poor, with flooding costs in Europe and Life claims in Latin America. Net profit for the first nine months of this year is up 17.9% compared to the same period last year.

- **KT&G** operating profit for the third quarter was in line with forecasts, up 36% year-on-year. Domestic market share in traditional cigarettes rose, though volumes fell; market share in next generation products reached 40% and volumes grew. Export sales were mixed – weaker in the Middle East and stable in the US. Management indicated the likelihood of a flat dividend this year but affirmed a commitment to buybacks (4.1m shares, 2.98% of outstanding between Nov 2021 and Feb 2022).

- **NetEase** results beat expectations for both revenue and profit driven by PC game revenue up 29% year-on-year. Mobile game revenue grew 9% with Harry Potter, Fantasy Westward Journey and Westward Journey Online being the contributors. Cloud Music saw good revenue growth and sustained its gross margin, having improved its content library after completing an agreement with Warner Music. The Cloud Music subsidiary completed its initial public offering at the end of the month.

- **Nien Made Enterprise** results included an operating margin of 26% which, although lower than last year, was better than expected and was well received given earlier concerns on cost pressures. A stabilizing PVC price, improved production efficiency in Cambodia and a higher proportion of custom products all contributed. The company is a beneficiary of the strong housing market in the US; it has been able to raise prices for a second time in 2021 and more capacity expansion in Mexico continues to reduce its reliance on China.

- **Public Bank** reported third quarter 2021 earnings that were ahead of expectations. Year-to-date net profits were up 6% year-on-year. Return on equity narrowed to 12.4% from 12.9%, while capital adequacy is sound (Core Equity Tier 1 capital is 14.1% of risk-weighted assets). We regard Public Bank as the highest-quality in Malaysia: conservatively managed, with solid cost management (Cost: Income ratio 31.7%), good asset quality (3.2x loan loss coverage) and a diversified loan book.

- **Qualcomm** reported its fourth quarter results that exceeded expectations for both revenue and profitability. More significantly, the company pointed to an even stronger first quarter driven by its non-handset business. In the handset business, the reliance on Apple has fallen and the company is expanding its opportunity in Android, demonstrating growth in what had previously been considered by investors to be a ‘mature’ ex-growth segment. The results prompted widespread upgrades to market forecasts and made the stock the fund’s best performer during the month.

Outlook

In the portfolio, consensus estimated earnings growth over the period of 2019 – 2022 is 8.7% per annum compared 9.5% for the market, based on consensus forecasts. This is not much less than the overall market (and it should be remembered the companies are paying out just over 50% of the earnings in dividends) but our companies are tending to meet or beat expectations. Furthermore, investors are not being asked to pay up, or overpay, for these stocks. The fund is trading at a 19% discount to the market, on Price/Earnings multiples of only 11.5x 2021E earnings and 10.5x 2022E earnings compared to the benchmark which is trading on 14.3x and 13.4x consensus estimated earnings.

Edmund Harriss
Mark Hammonds
Portfolio Managers

Data sources

Fund performance: *Financial Express*

Index and stock data: *Bloomberg*

PORTFOLIO

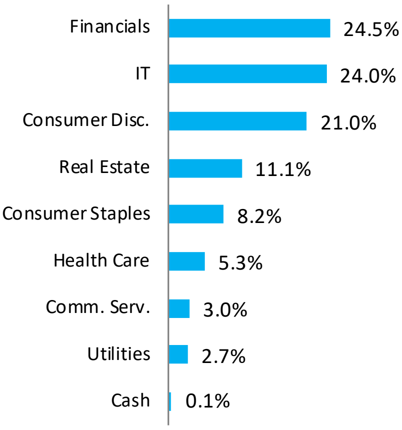
30/11/2021

Fund top 10 holdings

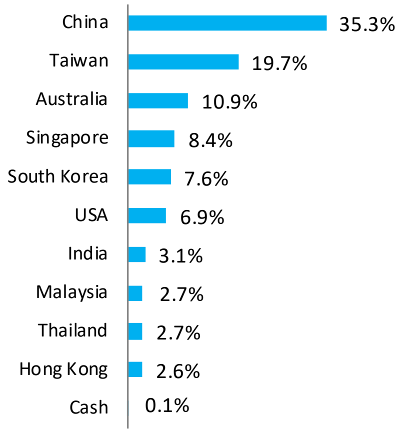
Qualcomm	3.8%
Elite Material	3.6%
Zhejiang Supor	3.4%
Tech Mahindra	3.1%
Aflac	3.1%
NetEase	3.0%
Sonic Healthcare	2.9%
Taiwan Semiconductor	2.9%
Novatek Microelectronics	2.9%
Ping An Insurance	2.9%

% of Fund in top 10	31.7%
Total number of stocks in Fund	36

Sector analysis



Geographic allocation



PERFORMANCE (Past performance does not predict future returns)

30/11/2021

Discrete years % total return (GBP)	Nov '21	Nov '20	Nov '19	Nov '18	Nov '17
Fund (Y class, 0.89% OCF)	11.6	2.6	9.3	-6.0	24.2
MSCI AC Pacific ex Japan Index	-0.6	19.0	8.3	-3.7	21.3
IA Asia Pacific ex Japan	5.8	17.8	9.7	-5.1	21.8

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	8.4	11.6	25.2	46.1	122.9
MSCI AC Pacific ex Japan Index	-1.0	-4.3	-0.6	28.2	49.7	100.0
IA Asia Pacific ex Japan	-0.7	1.1	5.8	36.9	58.2	113.4

Annualised % total return from launch (GBP)

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

30/11/2021	Index	Sector	Fund
Alpha	0	1.76	2.77
Beta	1	0.89	0.85
Information ratio	0	0.25	0.22
Maximum drawdown	-26.36	-24.54	-24.84
R squared	1	0.95	0.83
Sharpe ratio	0.37	0.47	0.50
Tracking error	0	3.51	6.35
Volatility	15.38	14.06	14.40

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.