# Guinness Best of Asia Fund

Guinness Best of Asia Fund

## INVESTMENT COMMENTARY – April 2021

| | |
|---|---|
| **Launch date** | **28.12.17** |
| **Team** | **Edmund Harriss** (manager)<br>**Mark Hammonds** (analyst)<br>**Sharukh Malik** (analyst) |

### Aim

Guinness Best of Asia Fund is designed to provide investors with exposure to economic expansion and demographic trends in the Asia Pacific region or elsewhere that do at least half of their business in the region.

The Fund is managed for capital growth and invests in profitable companies generating persistently high return on capital over the business cycle.

### Performance (in GBP)

31.03.21

| | |
|---|---|
| **Fund** | Best of Asia Fund (Z Cls, 0.74% OCF) |
| **Index** | MSCI AC Asia Pacific ex Japan |
| **Sector** | IA Asia Pacific Excluding Japan |

| | **2020** | **2019** | **2018** |
|---|---|---|---|
| **Fund** | 25.1 | 16.3 | -15.7 |
| **Index** | 18.7 | 14.6 | -8.6 |
| **Sector** | 20.0 | 15.8 | -9.8 |

| | **1 year** | **3 years** | **From launch** |
|---|---|---|---|
| **Fund** | 61.5 | 35.9 | 29.9 |
| **Index** | 42.6 | 31.9 | 26.1 |
| **Sector** | 48.5 | 35.8 | 29.6 |

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


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

| | **Index** | **Sector** | **Fund** |
|---|---|---|---|
| **Alpha** | 0.00 | 1.08 | 0.75 |
| **Beta** | 1.00 | 0.95 | 1.11 |
| **Info ratio** | 0.00 | 0.26 | 0.17 |
| **Max drwdn** | -20.20 | -20.83 | -23.86 |
| **Tracking err** | 0.00 | 2.85 | 6.63 |
| **Volatility** | 15.69 | 15.19 | 18.49 |
| **Sharpe ratio** | 0.25 | 0.31 | 0.28 |

**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 0.74% OCF. Returns for share classes with a different OCF will vary accordingly

## Summary

In March, the Fund fell 0.4% (Z share class, in GBP) compared to the benchmark, the MSCI AC Asia Pacific ex Japan Net Total Return Index, which fell -1.1%. The Fund also outperformed the Growth Index, which fell 2.7%.

Over the quarter, the Fund rose 6.4% compared to the benchmark which rose 1.6% (in GBP). The Fund also outperformed the Growth index which fell -0.8%.

We think it is useful to see how the Fund performed in rising markets as well as falling markets. Markets peaked on Feb 17th and in this rally, the Fund rose 17.4% while the benchmark rose 10.8% and the Growth index rose 13.2% (in GBP). In the sell-off, which lasted till the end of the quarter, the Fund fell 9.3%. This compares to the benchmark which fell 8.3% and the Growth index which fell 12.4% (in GBP). The fund therefore outperformed significantly in the rally while only giving up a small part of the relative gains in the selloff.

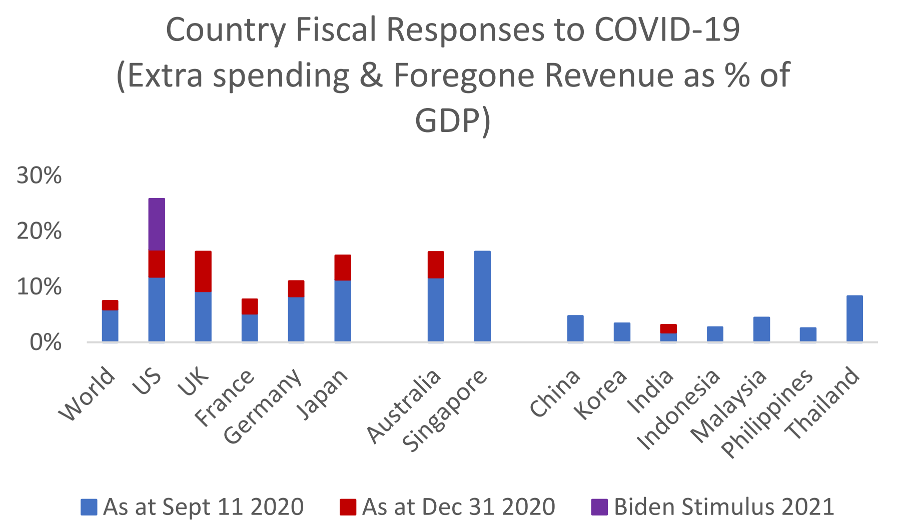
The Fund is designed to provide exposure to the structural growth opportunities present in Asia. We identify industries we think can grow earnings over the long-term, giving us more confidence that companies in these industries can grow their earnings over time. We then apply a set of quantitative filters to identify quality, profitable companies with strong balance sheets. Quality is defined as a return on capital above the cost of capital while a strong balance sheet is defined as debt/equity less than 150%. We are interested in profitable, high return on capital businesses that can take advantage of the structural growth opportunities we have defined. In the portfolio, we are looking for companies that we think can grow earnings over time, and by enough to offset mean reversion in the valuation multiple.

# Quarter Review

### Macro review

The tone of the market shifted dramatically during the first quarter as investors sought to navigate the next stages of post-pandemic economic recovery. The first issue that markets have been wrestling with is the potential for inflation following an expected resurgence in economic activity driven by pent-up demand due to restrictions on opportunities for consumer spending and by the possible effects of huge government stimulus.

Below, using IMF data, we show the proportion of GDP 'spent' by governments on economic support in the form of both actual spending and tax revenue foregone. Recently the game-changer has been the stimulus package introduced by President Biden:




***Source: IMF Fiscal Monitor - Database of Country Fiscal Measures in Response to the COVID-19 Pandemic. Data as at 31 Dec 2020, PLUS (in purple) the additional Biden stimulus package.***

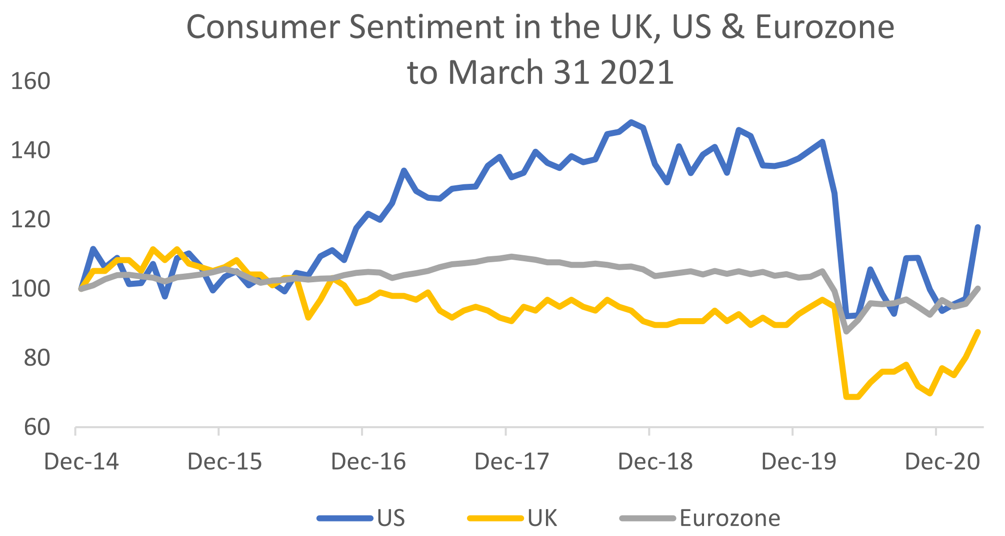
There is already likely to be a high propensity for households to spend the stimulus cheques which will shortly arrive on the doormat, but this is not the whole picture. This chart does not include proposals to spend up to US$2 trillion on infrastructure projects. And this is where the game appears to have changed. Since the 1980's the political environment has favoured smaller government, deregulation, free-markets and less government spending. Now, it seems not only acceptable, but perhaps desirable for governments to increase their direct involvement in economic activity through spending; the impact from central bank interventions on money supply and interest rates appears to be lessening and so it appears governments (especially Biden's government) are ready to take over.

Perhaps it's too early to state definitively that government-led Keynesian-style economic policies akin to those of the 1950s to 1970s is now the order of things, replacing the monetarist Friedman-style policies of recent decades. But that seems to be the way markets are thinking. The most immediate result has been a significant upgrade to economic growth forecasts. The median consensus forecast estimate for US economic growth in 2021 is now 5.7%, compared to 4% expected at the end of last year. World growth is forecast on the same basis to grow 5.6%, compared to the earlier estimate of 5.1%.

The upgraded forecasts are reflected in business confidence which has risen significantly since the end of 2020. The business and consumer confidence measures shown below are diffusion indices, meaning that they indicate whether optimists outnumber pessimists. A reading above 50 means the optimists outnumber the pessimists and conversely, below 50 there is a greater sense of pessimism. The latest data points to a surge in business optimism in the US, in Germany, the UK and Korea – all regional and global economic bellwethers.


***Sources: China - National Bureau of Statistics; Korea, US, UK, Germany - Markit***

There has been a positive consumer response evident in the US and the UK; European countries are still reeling from new lockdowns and an uneven vaccine rollout which has kept consumers subdued:



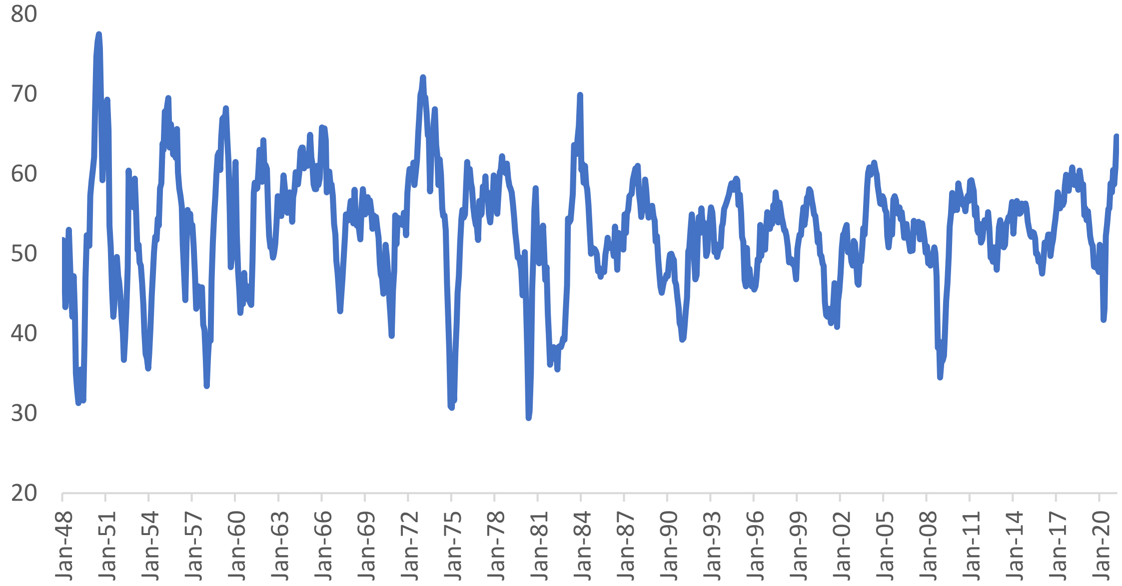

***Sources: US - Conference Board; UK - GFK; Europe - European Commission. Rebased to Dec 2014 = 100, Guinness Asset Management calculation.***

In Asia, we can see consumer confidence remains positive and substantially less volatile (although China's data is only to January 31, 2021) but it lags the recovery in industrial production and trade:


***Sources: China - National Bureau of Statistics; Korea - Bank of Korea. Rebased to Dec 2014 = 100, Guinness Asset Management calculation. *Latest China data as of January 31, 2021***

If we look a little more closely at the US and consider current levels of business confidence in the context of the last seventy years, it suggests to us that cyclical recovery together with expectations of substantial pro-cyclical government spending is having a material impact on business behaviour and business prices.

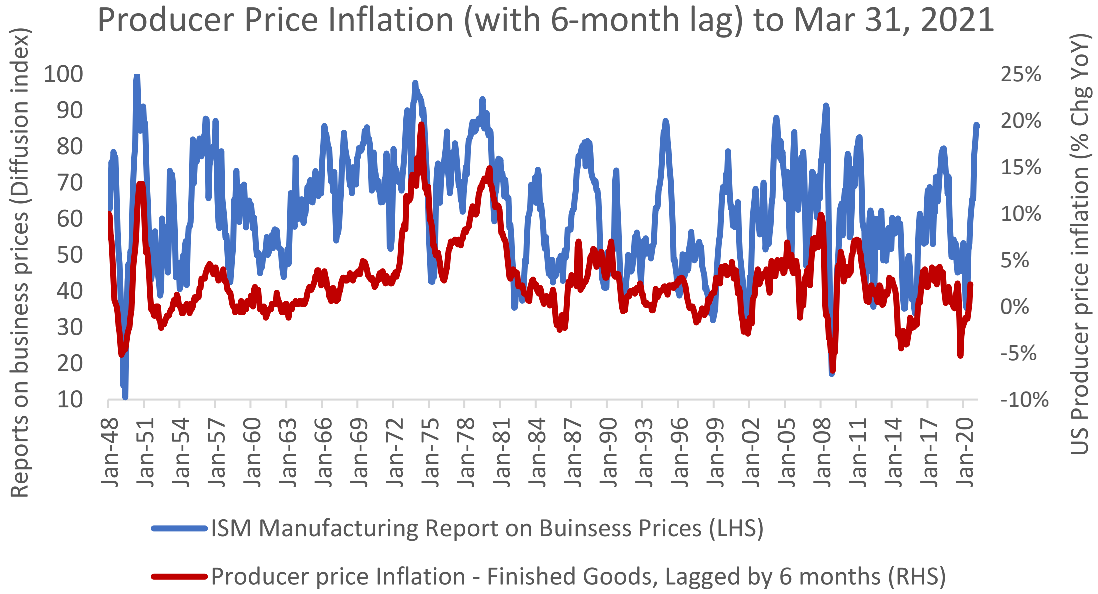
US ISM Manufacturing PMI SA to March 31, 2021




***Sources: Institute for Supply Management, Bloomberg***

The chart above shows levels of confidence not seen since the early 1980s. Significantly, we think, they are approaching levels that were seen with higher frequency through the 1950s and 1960s. Are we moving back to a world in which the prevailing economic framework was markedly different from that which has dominated since the mid-1980s, in which business cycles were shorter and more pronounced? It is probably too early to tell but what we can see is that this confidence is also reflected in rising business prices. The chart below shows Business Price Reports from the Institute for Supply Management, plotted against Producer Price Inflation for Finished goods, with a 6-month lag. The lag is an allowance for the time taken for higher input costs to be reflected in final goods prices.

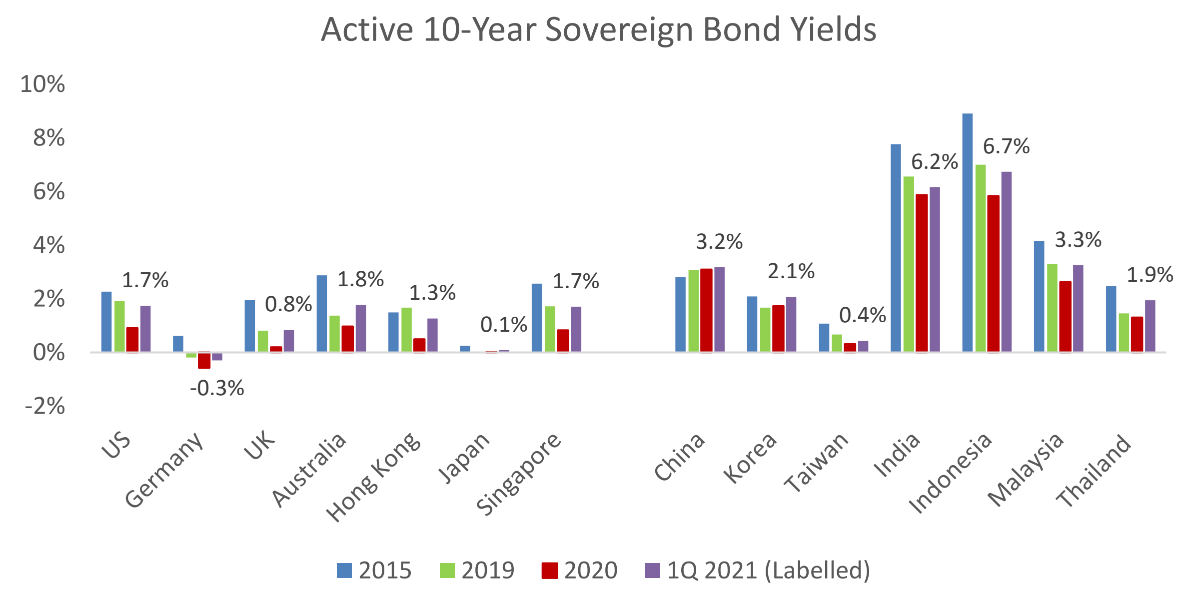
US ISM Manufacturing Business Price Reports vs US Producer Price Inflation (with 6-month lag) to Mar 31, 2021




***Sources: Institute for Supply Management, US Bureau of Labor Statistics, Guinness Asset Management***

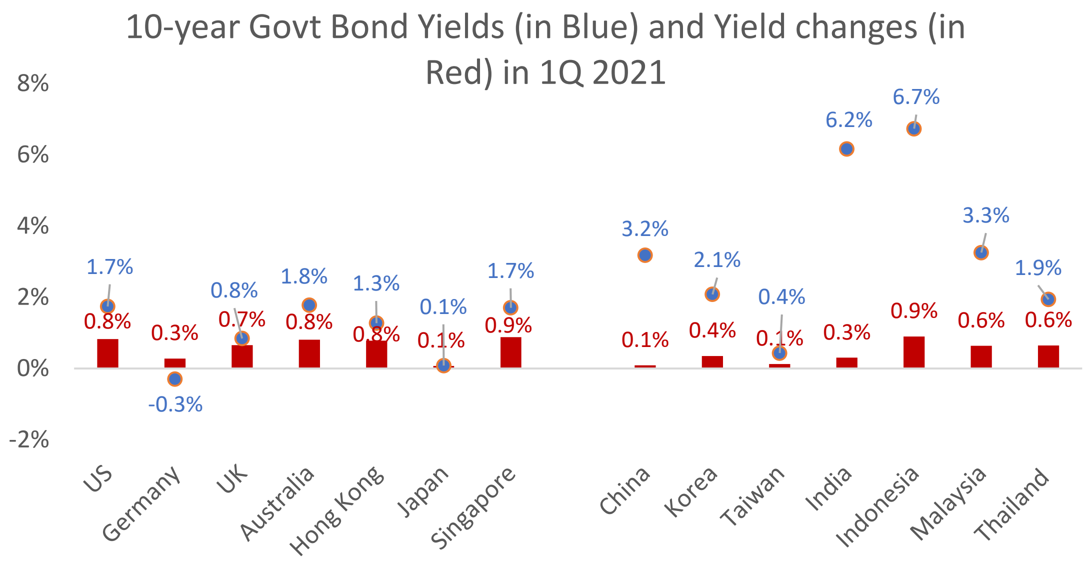
The inflation risks posited by this chart are not so clear cut. The correlation between to the two series, higher Business prices, followed by a rise in Producer prices of finished goods 6 months later, has a correlation of 0.63 (if the correlation were 1, the two series would move together in the same direction, a perfectly positive relationship; if it were -1, they would move in exactly opposite directions, a perfectly negative relationship; and if 0, there would be no relationship at all). The correlation of 0.63 indicates there is a positive relationship, but even a glance at the chart shows that the size of the inflationary response varies.

One factor that can influence the outcome is interest rate policy. Bond markets are questioning whether the US Federal Reserve (the Fed) is ahead or behind on the inflation issue. Its credibility took a knock in 2018 when there was a swift about-face when efforts reverse course on its bond purchase programme triggered a sharp stock market decline. The Fed’s inflation policy has now moved toward an average inflation goal of ~2%, which implies a tolerance of an overshoot when it follows a period where inflation was below target. One of the results of this uncertainty has been a sell-off in the government bonds which have pushed yields higher and hit equity valuations of Growth stocks whose earnings and cash flows are expected further out into the future.




***Source: Bloomberg. Data as of 31 March 2021***

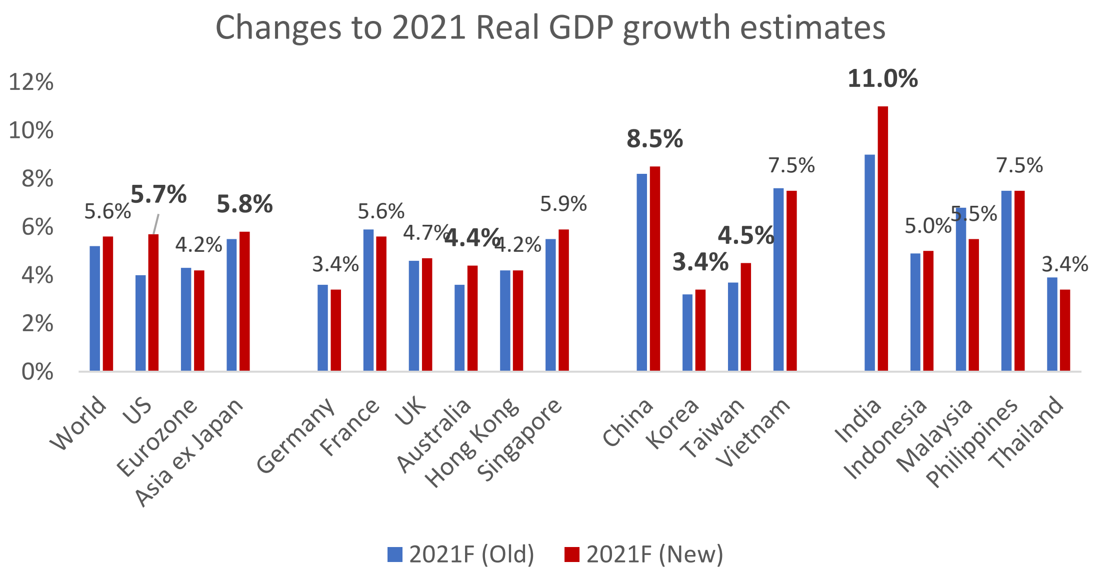
The main bond yield moves have been in developed markets. The US 10-year government yield has increased by 0.83% which is, as the chart below shows, not much at first glance but when placed in the context of the absolute yield the move represents a near-doubling of government borrowing costs since the end of 2020:




***Source: Bloomberg. Data as of March 31 2021***

This chart makes Asia look interesting, especially when taken in the context of the first chart in this section showing relative government stimulus spending. Bond yields in emerging Asia tend to be higher and the recent shifts have commensurately less impact. Governments in the region tend not be overloaded with debt (noting as always, the room for discussion about China). They have certainly not seen a massive expansion in borrowing at ultra-low rates which are going to need refinancing and probably at rates substantially higher than those of today. This means a potentially lower fiscal burden later.

The chart below shows the changes to market forecasts for GDP growth since the end of 2020. The most marked change, given its size, is that for the US. The other important driver of world growth is China and although the revision has not been as large, at 8.5% this growth is material. Life in the Eurozone – business confidence notwithstanding – remains less positive and is likely to remain so until consumers can re-emerge.




***Source: Bloomberg. Estimates as of April 5 2021.***

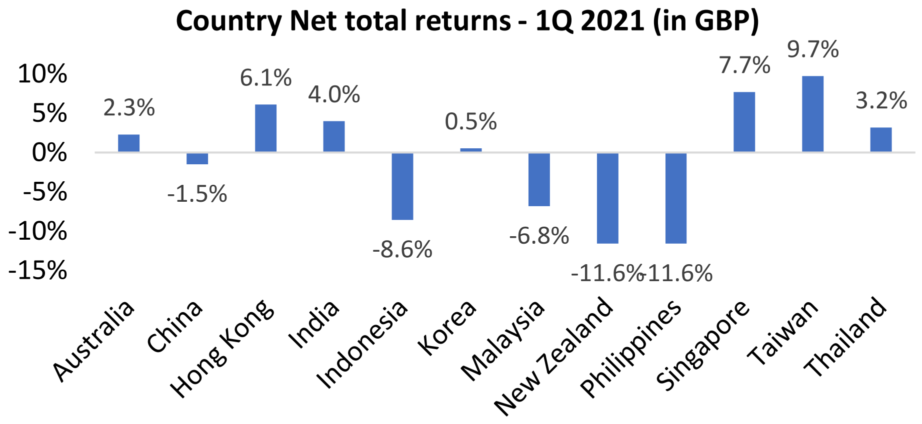
Trade growth has probably been the most important driver of growth so far this year. The timing of Chinese New Year holidays tends to distort the picture, as did disruption caused by the pandemic. However, when we take exports of the two months of the year together and compare them to the pre-pandemic 2019 levels, we can see that China's exports grew 33% over 2019 while Taiwan's grew 31%. Korean exports rose by 11% and Singapore's rose 8%. Thailand's exports however – along with much of south-east Asia – remained weak, contracting 2% compared with 2019.

Private consumption, as measured by car sales in China and by retail sales elsewhere, has lagged trade and industrial production. China's car sales in the first two months of this year were essentially unchanged from 2019. Taiwan's retail sales have been more buoyant, rising 9% on 2019 levels, but this is against a backdrop of one of the world's best COVID responses where domestic disruption has been minimal. In Korea and Singapore, retail sales have been weaker for the last 12 months but in February posted a 10% and 5% expansion respectively, year-on-year.

There is an effort in the region to stimulate domestic activity and this is evident in money supply growth numbers in Taiwan, Korea, Singapore and Thailand with broad money (M2 – money in circulation and deposits) growing 4%-5% faster in the first two months of this year than in 2019 and in 2020. China's money supply has also increased to ~10% in the first two months of the year over last year, up from ~8% the year before, but this has been a cause for concern. China's authorities remain concerned about a credit/debt bubble and the spike has prompted a request to leading banks to restrain loan growth to the same level as last year.

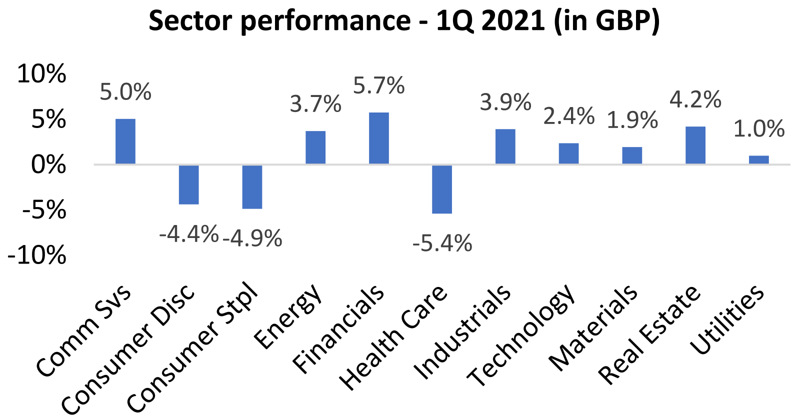
## Asian markets review

Stock markets in Asia opened strongly in 2021 and rose briskly through much of January and into February, with 17th February marking a turning point. There were two notable drawdowns during the period; the first was between 21st and 29th January when the market fell over 5% and in which the Fund outperformed by over 2% and the second between 17th February and March 31st when the market fell almost 9% and in which the Fund outperformed by 8%. These two periods of defensive performance were key to the Fund's outperformance during the quarter. The drivers of the benchmark's performance of +1.5% (in GBP) at a country level were the underperformance of China, down -1.5% and Taiwan's outperformance, up +9.7%.



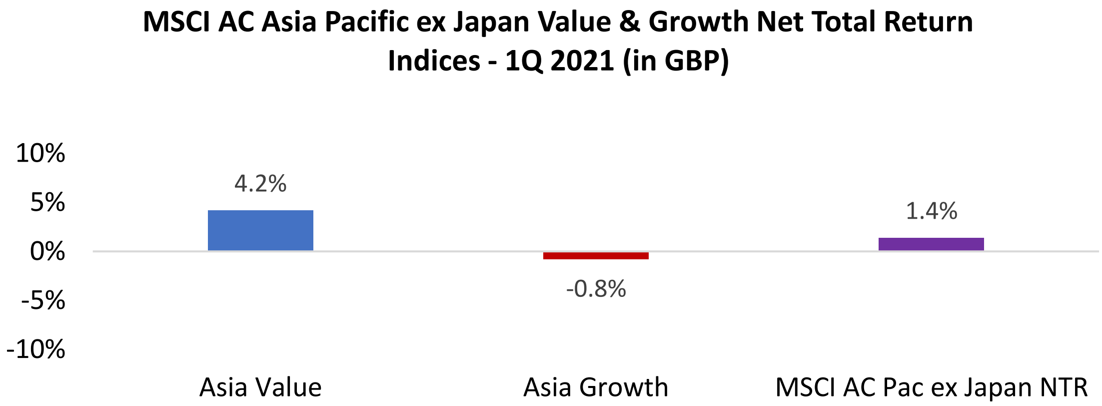

***Source: Bloomberg. Data as of March 31 2021***

The Fund has no exposure to Indonesia, New Zealand, Malaysia and the Philippines. China's underperformance against the benchmark was largely attributable to declines in Growth names such as Alibaba, Meituan and Tencent. Taiwan's outperformance has been led by the strength in technology manufacturers which, except for Taiwan Semiconductor, belong more in the Value category. Communication Services performance was driven by telecom stocks such as China Mobile and SK Telecom, which we do not hold. Financials, at the benchmark level, were led by Australian and Korean banks to which we have no exposure.



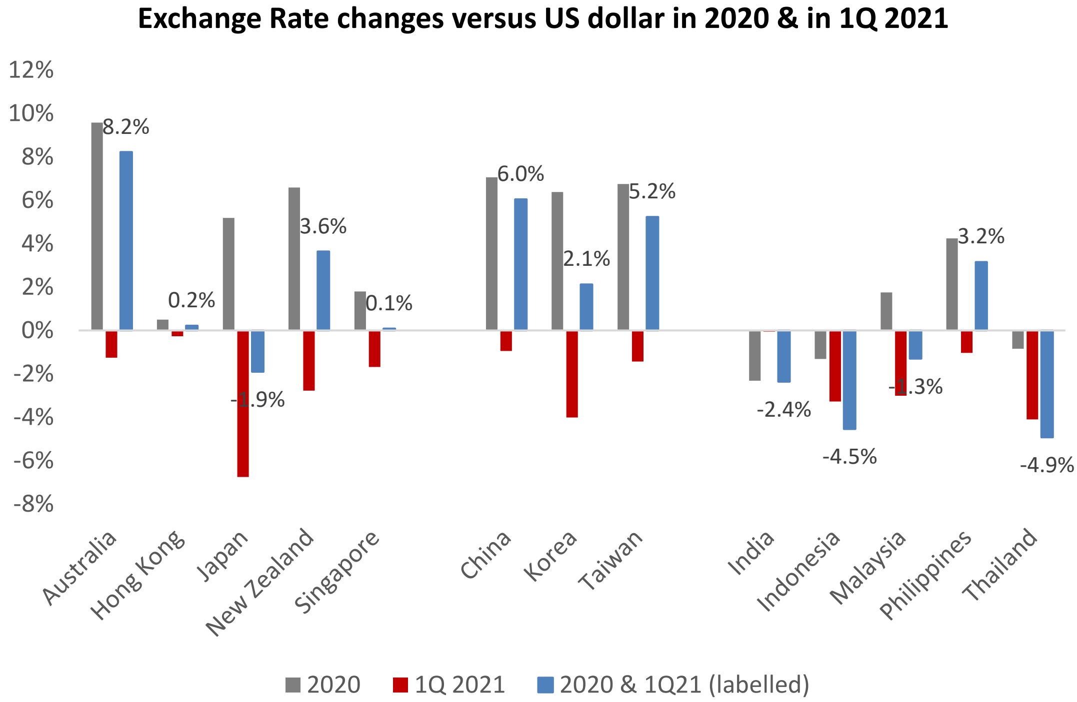

***Source: Bloomberg. Data as of March 31 2021***

The reversal of Growth's outperformance over Value has been observed across markets and is no less true in Asia. The chart below shows the performance of the two categories as measured by the MSCI AC Asia Pacific ex Japan Growth and Value Net Total Return Indices:




***Source: Bloomberg. Data as of March 31 2021***

Asian currencies were generally weaker against the dollar during the first quarter. To some extent this can be attributed to a narrowing of the interest rate differential between the US and Asia. This can be observed in the chart on page 8, showing changes in government yields this quarter. Emerging Asian government bond yields have moved less than those of the US, narrowing the interest rate difference with the US, whereas those for developed Asia Pacific have moved roughly in line.

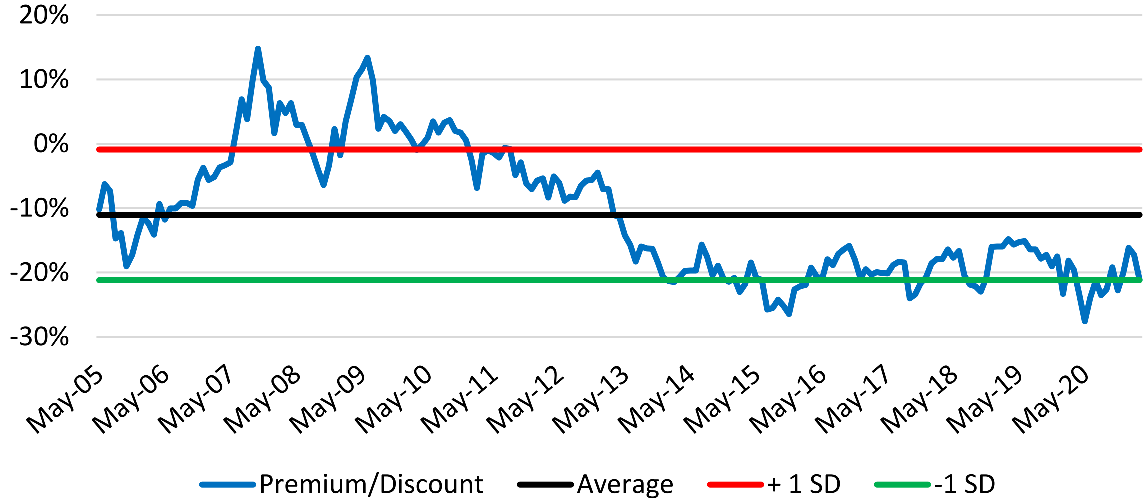



***Source: Bloomberg***

The grey bars show the change in the first quarter following the change in 2020 as shown by the blue bars. For the most part, except for Malaysia and Thailand, where the Fund has exposure (Australia, China, Hong Kong, India, Singapore) the currency gains have held up or as in India's case, have not worsened.

At the end of the quarter, Asian markets as measured by the MSCI AC Pacific ex Japan Index were trading on 12-month forward Price earnings (PE FY1) multiple of 16.7x consensus estimated earnings and a 24-month forward Price earnings (PE FY2) multiple of 14.6x consensus estimated earnings. After stronger developed markets' performance at the end of the period, the region's PE FY2 valuation discount to the developed world fell back to the lower end of its range, defined here as one standard deviation either side of the average (+/- 1 SD), which is where statistically, the values fall two thirds of the time:

**MSCI AC Pacific ex Japan FY2 PER Premium/Discount vs MSCI World**



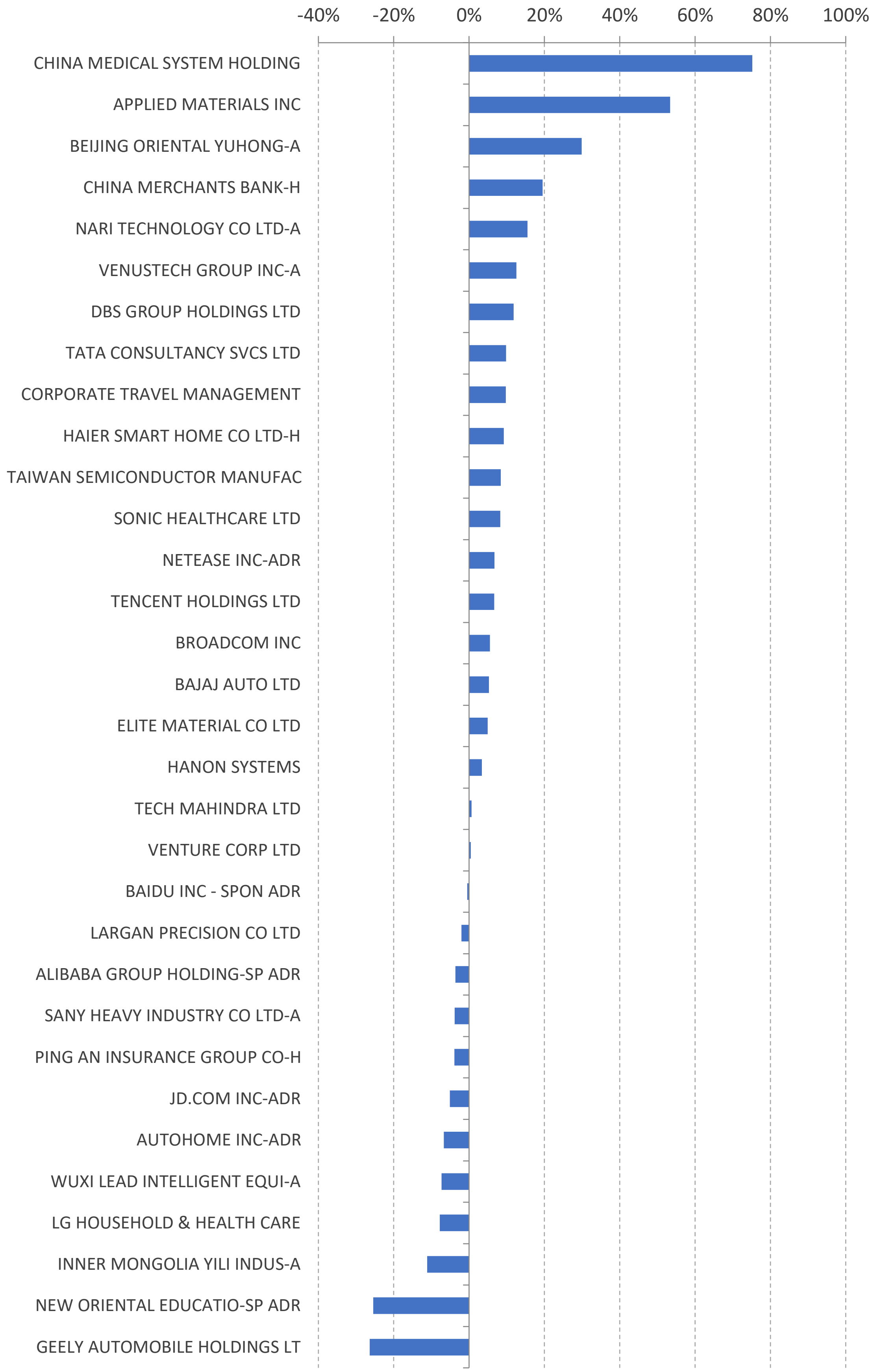

***Sources: Bloomberg consensus earnings estimates, MSCI, Guinness Asset Management. Data as of March 31 2021***

## Stocks review

### Performance

The Fund's performance was led in the first quarter by **China Medical System**, which rose 75% in GBP terms. Last year the stock fell 22% and underperformed the benchmark by over 40%. Its rally this year has made up all that lost ground; since the beginning of 2020, the stock has risen 37% and outperformed the benchmark by 16%. The company is a distributer of branded and generic drugs in China and has faced concerns that reforms to drug pricing might hit margins. Furthermore, the company had no COVID-vaccine angle. But the business has had a strong track record of generating superior returns on capital with only moderate variation over time. The dividend has grown progressively since 2011, by 8% for full year 2019 and by 30% for full year 2020. The valuation gap between the return on capital we thought the company would continue to generate versus the level implied by the price of the shares we thought was striking, especially given the steady history of the company. We think it shows the benefit of our approach which takes a longer-term fundamental view of value based on cash flows rather than market multiples of earnings and which, through our portfolio rebalancing process, enables us to ride out shorter term adverse market price moves.

Individual stock performance over month (total return GBP)



Portfolio performance through the quarter was not attributable to a single name. Eighteen out of our thirty-six holdings outperformed. Among the top 10 performers, apart from China Medical System, were:

- Three China A-shares – **Beijing Oriental Yuhong** (waterproofing materials), **Nari Technology** (equipment for the electricity grid) and **Venustech** (cybersecurity).
- Two banks – **DBS** is a perceived beneficiary of a steepening yield curve enabling higher pricing for their loans and, along with **China Merchants Bank,** reported much better asset quality measures than the market expected.
- One semiconductor equipment manufacturer – **Applied Materials**, which is an American business but derives more than 80% of its revenue from Asia.

Weaker stocks included:

- **Geely** was one of the Fund's strongest stocks in 2020 and gave back some of its gains in the sell-off. The company's main models are coming to their end of their cycle and so management is launching several new models to start the new cycle.
- **New Oriental Education**'s core business continues to do well but margins are being dragged by the online business, *Koolearn*, which is currently loss making. We expect the segment to turn profitable as the business reaches scale.

**Results**

Unless otherwise stated, results cover the most recent quarter.

- **Autohome** increased revenue by 7% and earnings per share (EPS) by 3%. Its main business, which consists of adverts and lead generation for auto dealers, was flat in the fourth quarter. On the other hand, the data and insurance business continued to grow, partly as a result of commissions earned on insurance sold by parent company Ping An Insurance.
- **Sany Heavy** reported a 54% increase in revenue and 44% increase in EPS. It is China's largest manufacturer of excavators and concrete machinery, which includes mixers and pumps. The market was concerned about a drop in Sany's gross margin but we think much of the drop can be explained by changes in accounting treatments and higher sales of lower margin excavators.
- **Corporate Travel Management** reported interim results where revenue fell 75% and earnings turned negative. The company's operations were effectively suspended last year as travel restrictions came into force. We have held onto the business and bought more on weakness during 2020, because of its flexibility to do just that and because of its strong financial position. We were rewarded in that decision with the company's acquisition of Transport and Travel Inc in the US which we think could add 30% to earnings.
- **China Medical System** reported a 23% rise in revenue and a 59% rise in earnings in its interim results. Price cuts for its generic products have been well below average. The business has signed deals to build its innovative pipeline, where pricing power is much higher compared to generics. The business has delivered results in the face of market scepticism.
- **Elite Material** reported revenue growth of 9%. Operating earnings grew 4% but a higher tax rate means earnings fell 18%. Elite is seeing robust demand across its smartphone, infrastructure and

automobile clients and expects this to continue into what is usually a seasonally slower first quarter.

- **Broadcom** grew revenue by 14% and operating earnings by more than 100%. The company's capacity is already 90% booked for 2021 as cloud and telecom customers improve their networks.
- **Inner Mongolia Yili** has yet to report full year results but in an update in January, was confident of growing 2020 revenue by 8%. The company's milk products seem to be growing well, offsetting the decline in the company's yoghurt sales.
- **Sonic Healthcare**'s interim results showed revenue growth of 33% and EPS growth of 165%. This reflected strong contributions from COVID testing which is unlikely to be sustained but the core business is still growing well.
- **JD.com** grew revenue and operating income by 31% and 12% respectively. The e-commerce business continues to do well and management is now investing in other parts of the business, such as group-purchasing and grocery deliveries.
- **Venustech** is a provider of cybersecurity services and it released its preliminary 2020 results. Revenue grew 18% while net profit grew 22%, implying the expected acceleration of revenue and earnings came through in the fourth quarter. New growth drivers include cloud security and industrial security.
- **China Merchants Bank** raised its dividend 4% in line with 2020 earnings compared to a 28% rise last year. Non-performing Loans were down to 1.1%. Net interest margin was 2.56% vs 2.69% in 2019.
- **Geely** grew revenue 11% in the second half of 2020, but EPS fell 28%. Geely's current models are reaching the end of their lifecycle and are becoming less competitive. Margins fell due to pricing pressure on these newer models, so the company is launching a range of new products in 2021.
- **Haier Smart Home**'s revenue grew 10%. The company expects it can undertake measures to manage rising raw material costs, such as through increasing production efficiency and increasing prices.
- **Tencent** grew revenue 26%. There is strong demand for the company's games, adverts on Weixin/Wechat, fintech and cloud products. However, the company is likely to face some regulatory action by antitrust authorities who are looking to clamp down on anticompetitive practices.
- **Ping An Insurance Group** reported a sales decline of 15%. Its 2020 results showed sales growth of 4% and operating profit growth of 5%. 2020 was a relatively weak year but the company was able to protect its margin for new business, a sign of its pricing power. We now expect growth to accelerate in 2021.
- **Bajaj Auto**'s revenue grew 17% which marked a record high, while net income grew 23%. Bajaj was able to increase average selling prices by 7%, boosted by greater demand in export markets in emerging markets. In its domestic market of India, the premium market is currently the bright spot.
- **New Oriental Education** grew revenue by 13% while net income was flat. The core education business is doing well, with enrolments up 10%. However, losses in the online business, *Koolearn*, meant profit growth was flat.
- **Tech Mahindra**'s sales were flat while EPS was up 14%. Demand was strong from telecom customers, driven by greater 5G demand. Utilisation of staff reached an all time high which boosted margins.

- **Tata Consultancy Services** grew revenue 5% while EPS grew 7%. Strong segments included banking and financial services, and the North American region. Like Tech Mahindra, margins were boosted by higher utilisation and productivity.
- **Hanon Systems**' revenue and EPS grew 7% and fell 26% respectively. Volumes are picking up while the business remains disciplined on cost control. Electric vehicles continue to become a larger part of the business and here sales grew 22%.
- **LG Household & Healthcare** grew sales and EPS by 4% and 5% respectively. Cosmetic sales were flat but duty-free sales were surprisingly strong, growing 7%. Sales in China grew 41% as the *Whoo* brand continues to grow.
- **DBS**' operating income fell 6% while EPS fell 33%. The company is expecting a recovery in 2021 which should lead to loan and income growth. Most provisions related to COVID have been booked in and now management is becoming more optimistic on the quality of their loan book.
- **Venture Corporation**'s interim results showed a revenue decline of 9% and an EPS decline of 9%. Margins for Venture, along with its competitors, grew in the second half of the year. The company is seeing a recovery in demand across most of its segments, but IQOS sales remain weak. Venture is looking to expand its presence in the production of robotics and automation equipment.
- **Largan Precision**'s revenue fell 17% while EPS fell 14%. The company is facing more competition from newer entrants into the industry. Chinese customers are increasing their orders of lower pixel lenses, which carry lower margins.
- **Beijing Oriental Yuhong**'s revenue grew 28% while EPS more than doubled. The company continues to benefit from demand for waterproofing components.
- **TSMC**'s grew revenue 14% while EPS grew 23%. Management expect growth drivers to include high performance computing, automobiles and Internet-of-Things. The company is investing tens of billions in capex to ensure it remains at the leading edge of chip production.
- **Applied Materials**' revenue grew 24% while EPS grew 27%. Demand for its semiconductor equipment remains strong and the company expects the wafer fab equipment market to grow to more than $70bn in 2021. The company is seeing strength across all of its major product lines: foundry, DRAM and NAND.
- **Baidu**'s revenue grew 5% while EPS fell 16%. We have been waiting for the company's investments in new growth areas to pay off and on this front, we saw strong growth in the cloud business where revenues grew 67%. Though the cloud business is currently unprofitable, we can see a path to profitability once it reaches sufficient scale.
- **Netease** reported revenue growth of 26% while EPS fell 69%, driven by a foreign exchange loss. Netease's mobile gaming revenue grew 19% in the fourth quarter and we see a solid pipeline of games coming through in 2021. The gaming business has long been a profitable and high return on capital business, supporting investments in newer segments. Through *Youdao*, Netease offers online tuition services and here revenues grew 170%. The segment is currently unprofitable as it is small but we like the underlying economics of the industry. Once mature, if Youdao can achieve a return on capital similar to that of New Oriental Education, which is also held in the Fund, it is likely to be a very profitable endeavour.
- **Alibaba** grew revenue 37% while EPS grew 48%. E-commerce sales continue to be strong but the business was fined $2.8bn for anti competitive practices, worth 4% of 2019 revenue. Additionally its Ant Financial business is being restructured as a result of regulatory pressure.

## Portfolio review

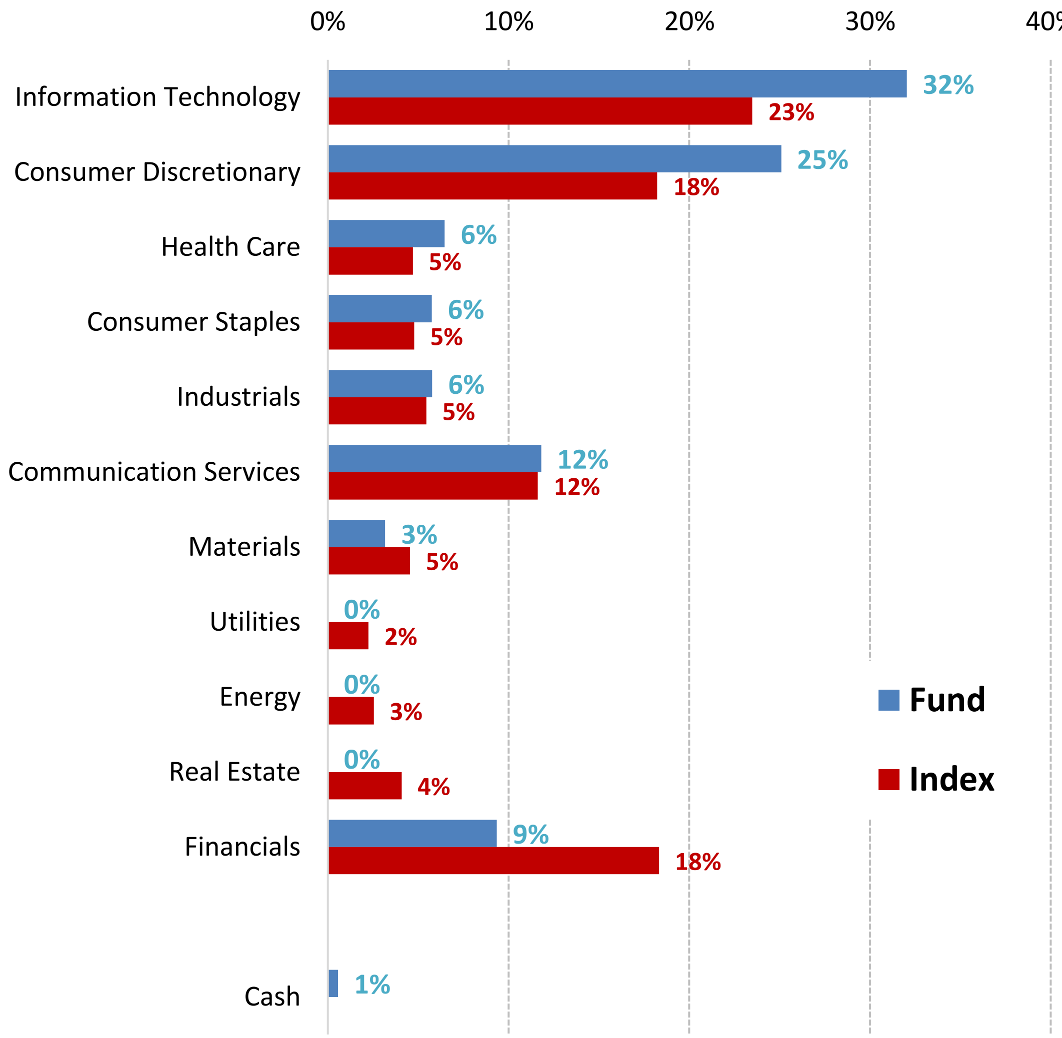
**Changes**

There were no changes made to the portfolio during the quarter.

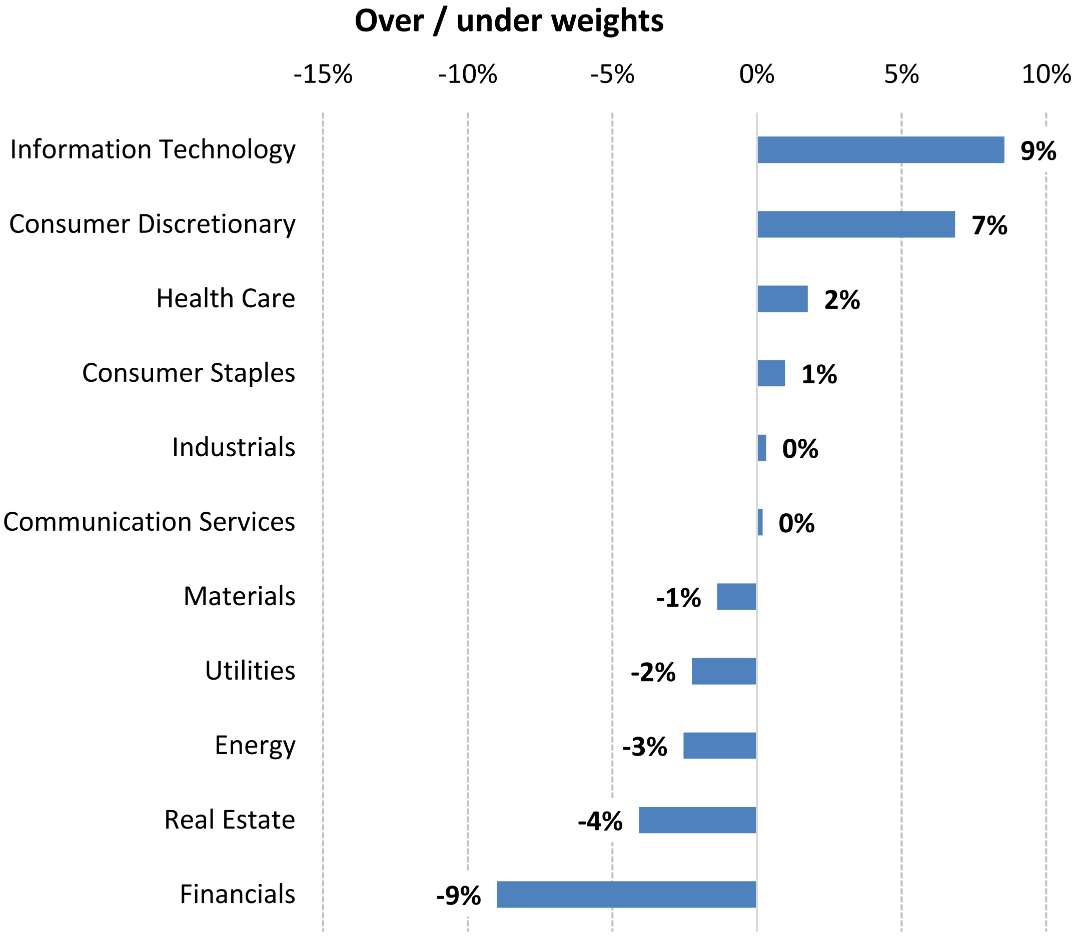
**Positioning**

At the end of the quarter, the main sector overweights were in Information Technology and Consumer Discretionary while the main underweight was in Financials.

**Fund allocation vs MSCI AC Asia Pacific ex Japan Index**



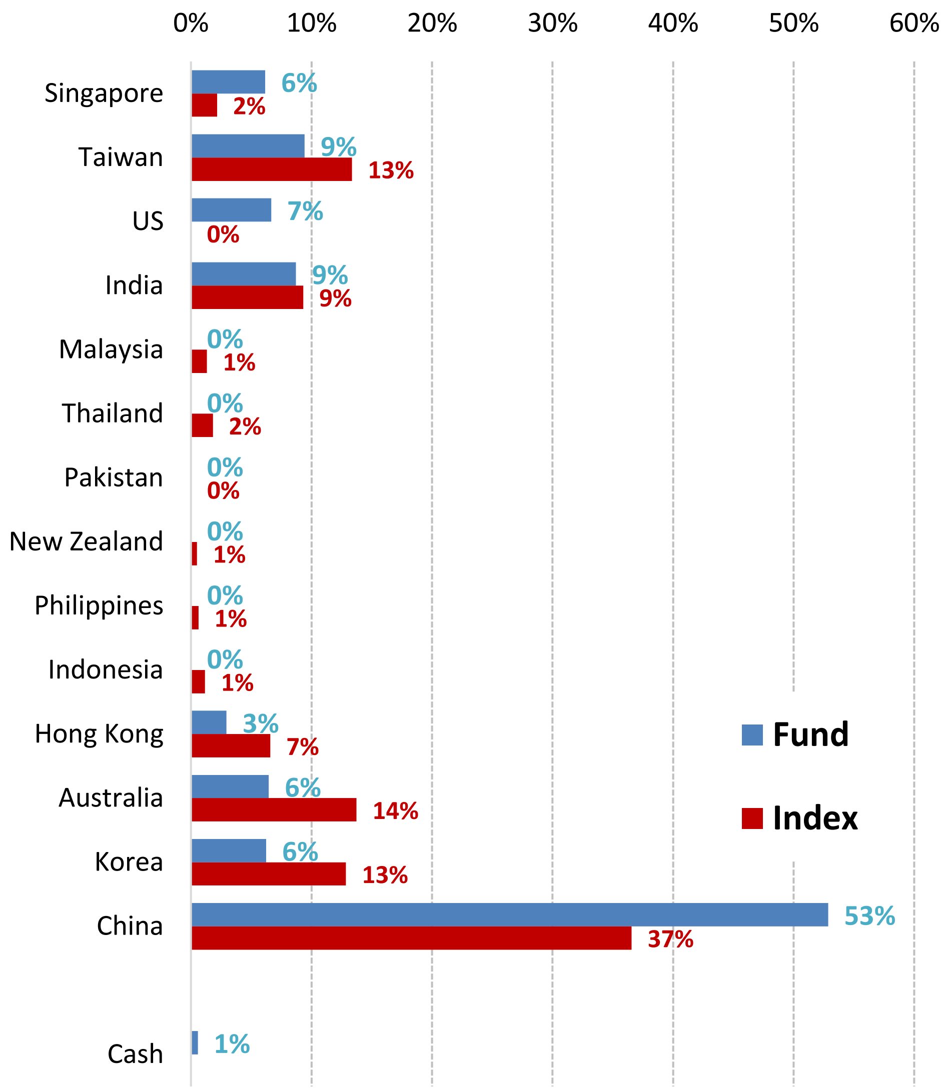

***Source: Guinness Asset Management. Data as of March 31 2021***



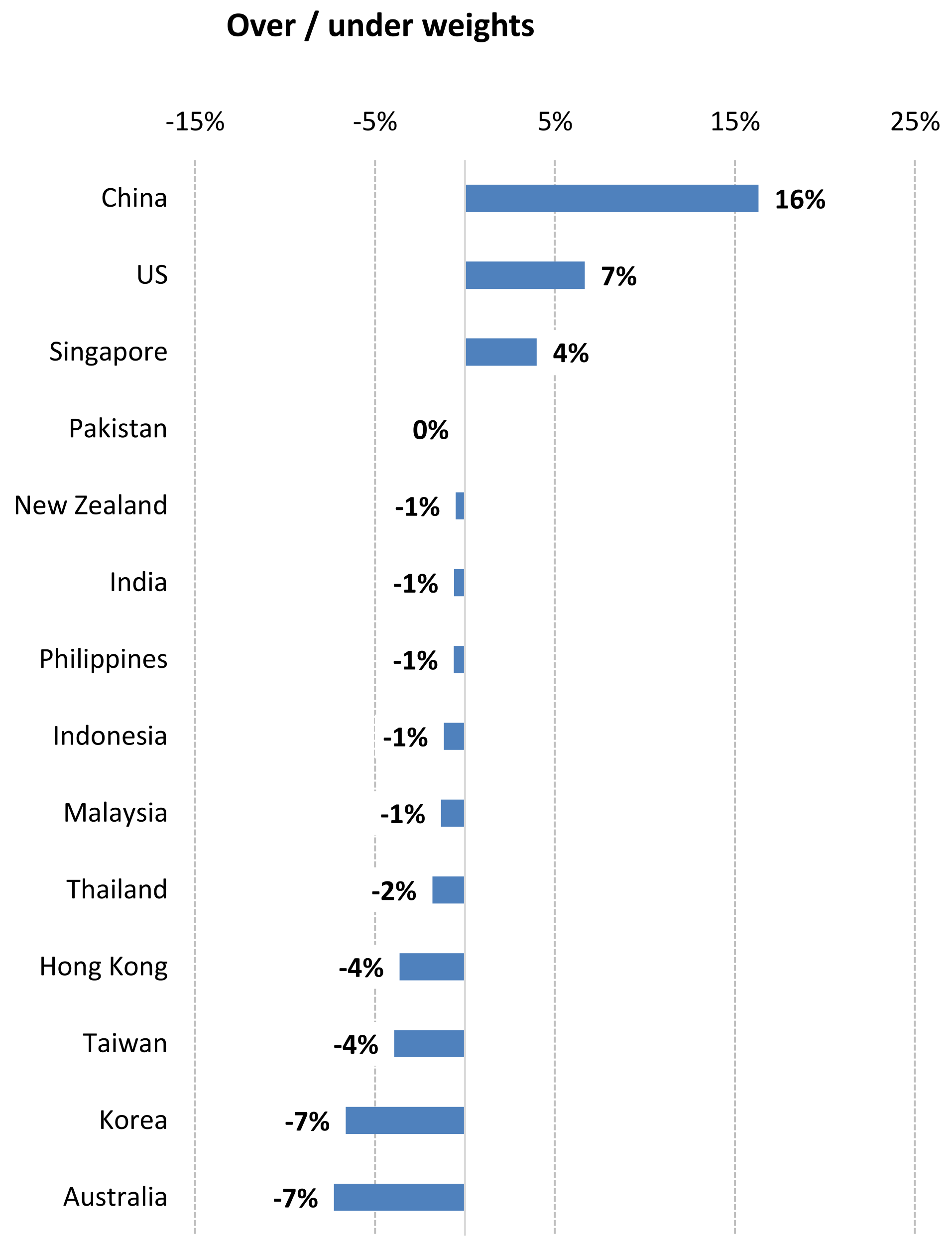

***Source: Guinness Asset Management. Data as of March 31 2021***

The Fund's largest exposures are to China, Taiwan, India, Singapore, Australia and the US. The Fund is significantly overweight in China and moderately overweight in the US and Singapore. The US weighting consists of two American companies who derive most of their revenue from the Asia region. The Fund is moderately underweight in Australia and Korea.

## Fund allocation vs MSCI AC Asia Pacific ex Japan Index




***Source: Guinness Asset Management. Data as of March 31 2021***




***Source: Guinness Asset Management. Data as of March 31 2021***

## Outlook

We believe the portfolio offers exposure to companies that are well placed to take advantage of the structural growth opportunities in Asia. We expect these companies to grow their earnings over time while earning a high return on capital. This expectation is not based on hope and is instead based on these companies already achieving a high return on capital over time. We are not interested in businesses which are in growing industries but where the growth has yet to lead cashflow coming through. Additionally, we pay close attention to valuations. Due to loose monetary policy, discount rates are at low levels relative to history. We assume that at some point in the medium-term, they will increase and so are not using these ultra-low rates as the basis for our valuation. Tackling the problem from another angle, we are expecting valuation multiples to fall at some point in the future. We are therefore looking for companies that can grow earnings by enough to offset this multiple compression.

We are monitoring several interesting ideas on our watchlist. These are companies with good business models but where we think valuations are currently too demanding. Some of these companies sold off much more sharply than the broader market in the sell-off. Despite this fall, we feel they still do not offer higher upside than the current holdings in the Fund. So we continue to conduct due diligence on these companies on the watchlist so that if valuations become more attractive, we are ready to act.

**Edmund Harriss** (portfolio manager)
**Mark Hammonds, CFA** (analyst)
**Sharukh Malik, CFA** (analyst)

**Data sources**

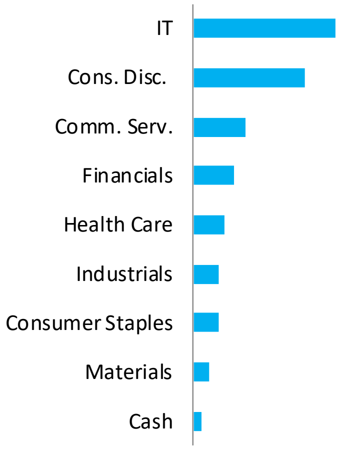
Fund performance: *Financial Express, total return 0.74% OCF in GBP*

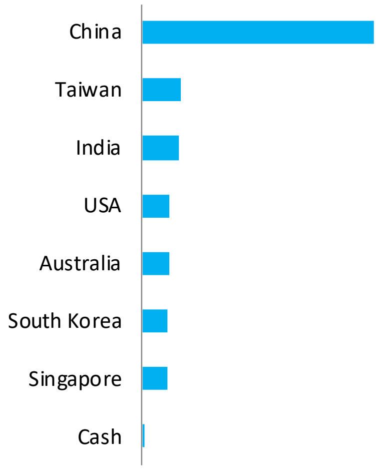
Index and stock data: *Bloomberg*

## PORTFOLIO

31/03/2021

| | |
|---|---|
| Haier Smart Home | 3.7% |
| Venustech Group | 3.5% |
| Ping An Insurance | 3.5% |
| China Medical System | 3.4% |
| Corporate Travel Manage | 3.4% |
| Largan Precision | 3.4% |
| Tencent Holdings | 3.4% |
| Hanon Systems | 3.4% |
| Broadcom | 3.4% |
| New Oriental Education 8 | 3.3% |
| % of Fund in top 10 | 34.5% |
| Total number of stocks | 32 |




## PERFORMANCE

31/03/2021

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

| | |
|---|---|
| **Fund** (Z class, 0.74% OCF) | 8.4% |
| MSCI AC Asia Pacific ex Japan | 7.4% |
| IA Asia Pacific Excluding Japan | 8.3% |

| Discrete years % total return (GBP) | Mar'21 | Mar'20 | Mar'19 | Mar'18 | Mar'17 |
|---|---|---|---|---|---|
| **Fund** (Z class, 0.74% OCF) | 61.5 | -16.0 | 0.2 | - | - |
| MSCI AC Asia Pacific ex Japan | 42.6 | -10.9 | 3.9 | 7.6 | 35.9 |
| IA Asia Pacific Excluding Japan | 48.5 | -11.3 | 3.1 | 7.3 | 35.1 |

| Cumulative % total return (GBP) | 1 month | Year-to-date | 1 year | 3 years | From launch |
|---|---|---|---|---|---|
| **Fund** (Z class, 0.74% OCF) | -0.4 | 6.4 | 61.5 | 35.9 | 29.9 |
| MSCI AC Asia Pacific ex Japan | -0.8 | 1.8 | 42.6 | 31.9 | 26.1 |
| IA Asia Pacific Excluding Japan | -0.2 | 3.5 | 48.5 | 35.8 | 29.6 |

## RISK ANALYSIS

31/03/2021

| Annualised, weekly, from launch on 28.12.2017, in GBP | Index | Sector | Fund |
|---|---|---|---|
| Alpha | 0.00 | 1.08 | 0.75 |
| Beta | 1.00 | 0.95 | 1.11 |
| Information ratio | 0.00 | 0.26 | 0.17 |
| Maximum drawdown | -20.20 | -20.83 | -23.86 |
| R squared | 1.00 | 0.97 | 0.88 |
| Sharpe ratio | 0.25 | 0.31 | 0.28 |
| Tracking error | 0.00 | 2.85 | 6.63 |
| Volatility | 15.69 | 15.19 | 18.49 |

**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. Returns for share classes with a different OCF will vary accordingly**

Source: Financial Express, bid to bid, total return (0.74% OCF). Fund launch date: 28.12.2017.

# 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 Guinness Best of Asia 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 Best of Asia 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. Details on the risk factors are included in the Fund's documentation, available on our website. Shareholders should note that all or part of the fees and expenses will be charged to the capital of the Fund. This will have the effect of lowering the capital value of your investment.

## Documentation

The documentation needed to make an investment, including the Prospectus, the Key Investor Information Document (KIID) and the Application Form, is available from the website www.guinnessfunds.com , or free of charge from:-

- the Manager Link Fund Manager Solutions (Ireland) Ltd, 2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland; or,
- the Promoter and Investment Manager: Guinness Asset Management Ltd, 18 Smith Square, London SW1P 3HZ.

## Residency

In countries where the Fund is not registered for sale or in any other circumstances where its distribution is not authorised or is unlawful, the Fund should not be distributed to resident Retail Clients.

**NOTE: THIS INVESTMENT IS NOT FOR SALE TO U.S. PERSONS.**

## Structure & regulation

The Fund is a sub-fund of Guinness Asset Management Funds PLC (the "Company"), an open-ended umbrella-type investment company, incorporated in Ireland and authorised and supervised by the Central Bank of Ireland, which operates under EU legislation. If you are in any doubt about the suitability of investing in this Fund, please consult your investment or other professional adviser.

## Switzerland

This is an advertising document. The prospectus and KIID for Switzerland, the articles of association, and the annual and semi-annual reports can be obtained free of charge from the representative in Switzerland, Carnegie Fund Services S.A., 11, rue du Général-Dufour, 1204 Geneva, Switzerland, Tel. +41 22 705 11 77, www.carnegie-fund-services.ch. 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.