Guinness Asian Equity Income Fund

Investment Commentary - January 2022

This is a marketing communication. Please refer to the prospectus and KIID for the Fund before making any final investment decisions. Past performance does not predict future returns.

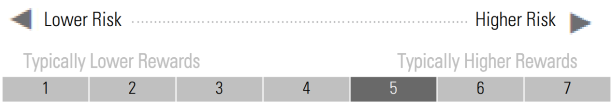
About the Fund

Launch date	19.12.2013
Team	Mark Hammonds Edmund Harriss 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. The fund is actively managed and uses the MSCI AC Pacific ex Japan index as a comparator benchmark only.

Risk



The risk and reward indicator shows where the fund ranks in terms of its potential risk and return. The fund is ranked as higher risk as its price has shown high fluctuations historically. Historic data may not be a reliable indicator for the future.

Performance

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

	1 Yr	3 Yrs	Launch
Fund	12.2	34.5	130.7
Index	-5.0	31.0	98.5
Sector	1.5	41.0	114.2

Annualised % total return from launch (GBP)

Source: FE fundinfo, , bid to bid, total return. Launch date: 19.12.13. 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. The fund performance shown has been reduced by the current ongoing charges figure (OCF) of 0.89% per annum and would also be lower if an initial charge were included. Annual performance since launch is shown below.

Summary

- In 2021 the Guinness Asian Equity Income Fund produced a total return of 12.2% (in GBP), compared to the Fund's benchmark, MSCI AC Pacific ex Japan Net Total Return (NTR) Index, which fell 5.0% (in GBP). The Fund therefore outperformed the Index by 17.2%.

- The IA Asia Pacific ex Japan Sector returned 1.5% (GBP), and the Fund outperformed its peer average by 13.6%.

- Since launch eight years ago (on 19 December 2013), the Fund has produced a cumulative total return of 130.7% (Class Y GBP) compared to the benchmark return of 98.5% – an outperformance of 32.2%.

    - Over the same period, it has outperformed both MSCI AC Asia Pacific ex Japan Value NTR Index, which returned 72.4%, and the equivalent High Dividend NTR Index, which rose 63.2%.

    - The Fund is just behind the MSCI AC Asia Pacific ex Japan Growth NTR Index, which is up 140.8% since launch.

- Covid-19 statistics, tiered lockdowns, unprecedented inflation, supply-chain shortages and interest rate rhetoric dominated financial headlines for most of the year.

- Asian markets also had to contend with considerable volatility in China in the second half of the year with sudden regulatory changes and a sharp credit squeeze amongst the private real estate developers. By contrast, trade growth was strong especially out of China, Taiwan and Korea, and the Chinese Yuan strengthened to its highest level against the US dollar in over three years.

- Most of the absolute gains made by the Fund came in the first half of the year, while its relative performance, from holding onto those gains, came in the second half of the year. Stock selection made an important contribution this year, notably with our China exposure outperforming the MSCI China Index.

Asian Equity Income Fund

- The main contributors to performance in 2021 were our holdings in Financials, Health Care and Technology, but we also saw contributions coming from those in the Communication Services, Consumer Discretionary and Real Estate sectors.
- The portfolio demonstrated significant resilience during the COVID period, with earnings per share in 2018-20 down -1.8% per annum (p.a.) in USD terms compared to the benchmark whose earnings declined -19.9% p.a. The underperformance of value stocks relative to growth during 2020 left the fund looking very cheap. The Fund's forecast earnings growth over the next couple of years, based on consensus estimates, is expected to be 9.5% p.a., higher than the 8.1% p.a. for the benchmark and yet the portfolio is still trading at a substantial valuation discount.
- The dividend story is also good. Dividends in Asia fell sharply in 2020, where many companies' dividend policies are tied to profits, and were down 19.3% in GBP terms [down 23.7% in EUR, down 16.9% in USD] for the benchmark. The Fund's dividend however, held up better than the market in 2020 and rebounded by more than the market in 2021.
- In GBP [EUR/USD] terms, the Fund's distribution has grown by an average of 3.8% [2.7%/1.1%] per annum compared to 1.8% [0.7%/-0.2%] per annum for the market.
- 26 companies grew their dividend, 1 kept the dividend flat, 8 dividends fell, and we saw 1 dividend omitted.

Performance

	1 year	3 years	5 years	Since Launch (19/12/2013)
Guinness Asian Equity Income Fund	12.2%	34.5%	50.6%	130.7%
MSCI AC Pacific ex Japan NTR Index	-5.0%	31.4%	48.8%	98.8%
MSCI AC Asia Pacific ex Japan Value NTR Index	3.6%	18.4%	28.4%	72.7%
MSCI AC Asia Pacific ex Japan High Dividend Yield NTR Index	7.6%	16.5%	28.7%	63.4%
IA Asia Pacific ex Japan Sector	1.5%	41.0%	59.4%	114.2%

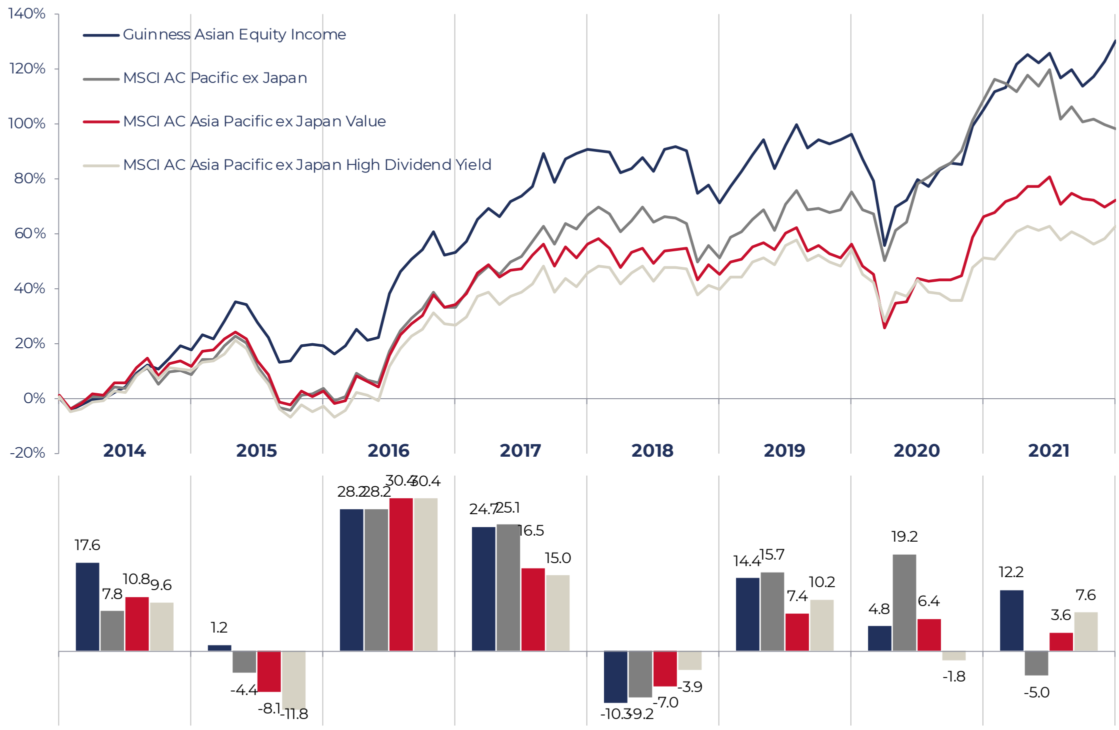
Cumulative Total Return, Class Y in GBP, as of 31st December 2021. Source: FE fundinfo.

The Fund's outperformance in 2021 ought to be considered in combination with the underperformance in 2020. In the two years since the advent of COVID the markets have moved through phases of sell-off, followed by a focus on technology and growth, through a materials and commodity surge and has now arrived at a point of higher inflation, interest rates and uncertainty.

When we take the whole period (2020 and 2021) into account period the Fund has risen 17.5% in GBP terms and outperformed the benchmark's rise of 13.3% by 4.2%.

	2014	2015	2016	2017	2018	2019	2020	2021
Guinness Asian Equity Income Fund	17.6%	1.2%	28.2%	24.7%	-10.3%	14.4%	4.8%	12.2%
MSCI AC Pacific ex Japan NTR Index	7.8%	-4.4%	28.2%	25.1%	-9.2%	15.6%	19.2%	-5.0%
IA Asia Pacific ex Japan Sector	9.5%	-3.4%	25.7%	25.3%	-9.8%	15.8%	20.0%	1.5%

Calendar year total return Class Y in GBP, as of 31st December. Source: FE fundinfo



Cumulative Total Return. Class Y in GBP, as of 31st December 2021. Source: FE fundinfo.

Dividend Review of the Market and the Fund

Analysis of the Market

In 2020, dividends for the MSCI AC Pacific ex Japan index (on a gross basis, excluding taxes) fell 19%. This was less than the 26% decline in mainland Europe and the 30% decline in the UK, but still sharp. The Asian drop was mostly attributable to Australia, the region's largest source of dividends, and to Singapore. Korean dividends increased in 2020 as companies increased the proportion of earnings they distributed (the pay-out ratio) from 21% in 2018 to 45% in 2020.

In 2021, aided by the global economic recovery, Asian dividends at the Index level grew 14% but are still below 2019 levels. The full impact of the earnings recovery in 2021 on dividends has yet to be seen because companies with financial periods ending on 31 December year-ends have not yet declared the related dividend. We expect therefore to see some further pick-up in dividends received in 2022. The analysis below is based upon the MSCI country indices.

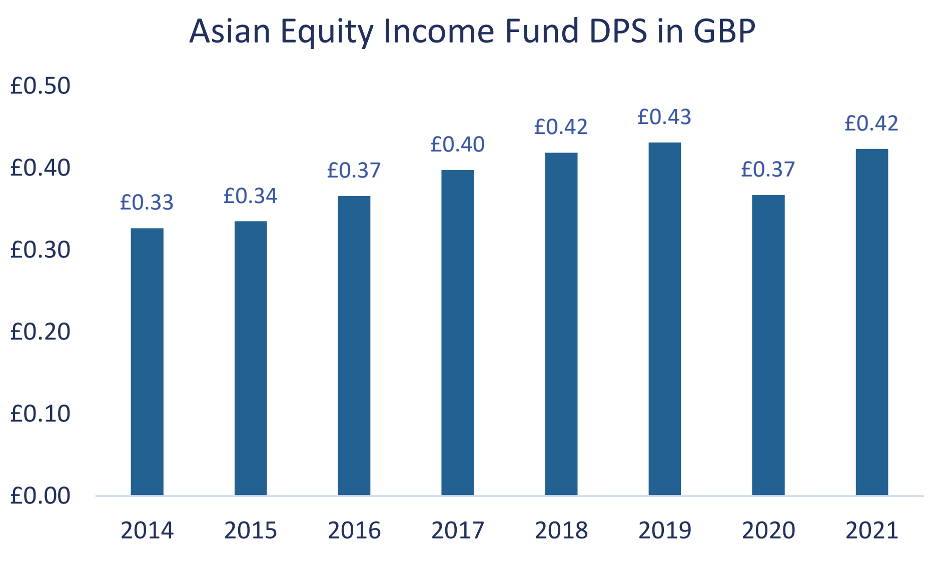
- Australian companies have seen the biggest dividend rebound so far in 2021 rising 53%, following a 38% fall in 2020, although that's still not enough to bring them back to the 2019 level.
    - Mining and materials reported the biggest jump up, 103%, followed by banks, up 62%, and consumer discretionary, up 59%.
    - This market is associated with a high pay-out ratio (over 70% in recent years), especially from the banks, and low long-term dividend growth. Low growth has caused its share of the total regional dividend pool to decline over the last ten years.
- Malaysian dividends rose 40%, lifted by commodities producers and by the banking sector, which restored dividends that were deferred in 2020.
- Taiwanese companies increased their dividends by 14% in aggregate and are forecast to rise further still in 2022.
    - Taiwanese technology manufacturing companies are the primary beneficiaries of component shortages, and most are operating at full capacity. Dividends in this sector rose 21% in 2021 and the market consensus forecasts a further 26% growth in 2022.

- China is a big source of dividend income with its companies distributing 33%-35% of net profits. These held up well in 2020, falling only 6%, and are expected to remain flat in 2021 before high single-digit growth resumes in 2022. As ever, the truer picture lies in the detail.
    - China's banks and insurers are the biggest dividend payers, and these rose 11% in 2020, 7% in 2021 and are expected to grow at a similar rate over the next three years.
    - The consumer discretionary sector, which includes the large e-commerce businesses and the auto makers saw dividends decline 31% in 2020 and rose only 11% in 2021.
    - Communication services is a significant but low yielding sector in MSCI China whose dividend profile is 96% determined by Tencent and NetEase.
- Elsewhere, Singapore dividends declined in 2021 but are expected to recover well in 2022; Hong Kong's dividends held up better, declining only 6% in 2022.
    - The decline in Singapore in 2021 was a hangover from dividend restrictions imposed on banks which were eased mid-year as well as the result of sharp drops from Singapore Airlines and Singapore Telecommunications. Real estate companies also registered a 30% drop. Recovery is expected to be led by banks and real estate; the outlook for the airline remains uncertain.
    - Hong Kong's financial sector dividends held up better than Singapore's due to the influence of heavyweight index member AIA insurance, whose dividend fell only 1%. Consumer Discretionary dividends, mostly Macau casino names, were weak in 2021 but are forecast to pick up again in 2022 and 2023.

Analysis for the Fund

For the Fund, the Class Y distribution in GBP terms increased in 2021 by 15.3%, having declined modestly by 14.8% in 2020. The GBP dividend would have been higher than that of 2019, pre-pandemic, were it not for Sterling's average 7.1% appreciation against the dollar. As it was, it was 1.8% behind 2019 and ahead 5.7% in USD terms.

The dividend history for the Fund's Y share class in Sterling can be seen below:



Y share class dividend growth in GBP.

Source: Guinness Asset Management.

Over the life of the Fund, the dividend has grown at a compound annual growth rate (CAGR) of 3.8% per annum compared to 1.8% per annum for the benchmark.

Based on year-end prices, the Fund's Y GBP share class had a 12-month trailing dividend yield of 3.6% (net of withholding taxes), 50% higher than the benchmark MSCI AC Pacific ex Japan Index net dividend yield of 2.4%.

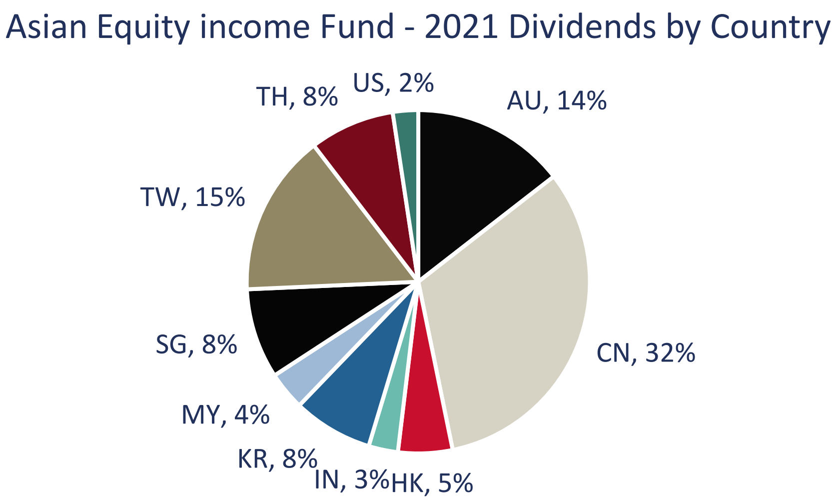
Our investment process focuses on companies that deliver profit growth, delivered in cash terms that support a growing dividend stream. These businesses generate sufficient funds for reinvestment but whose capital requirements and capital allocation discipline leave a surplus available for distribution. In this context, dividends and dividend growth are a tangible sign to us of a company's financial health and success beyond that reported to us in the financial accounts.

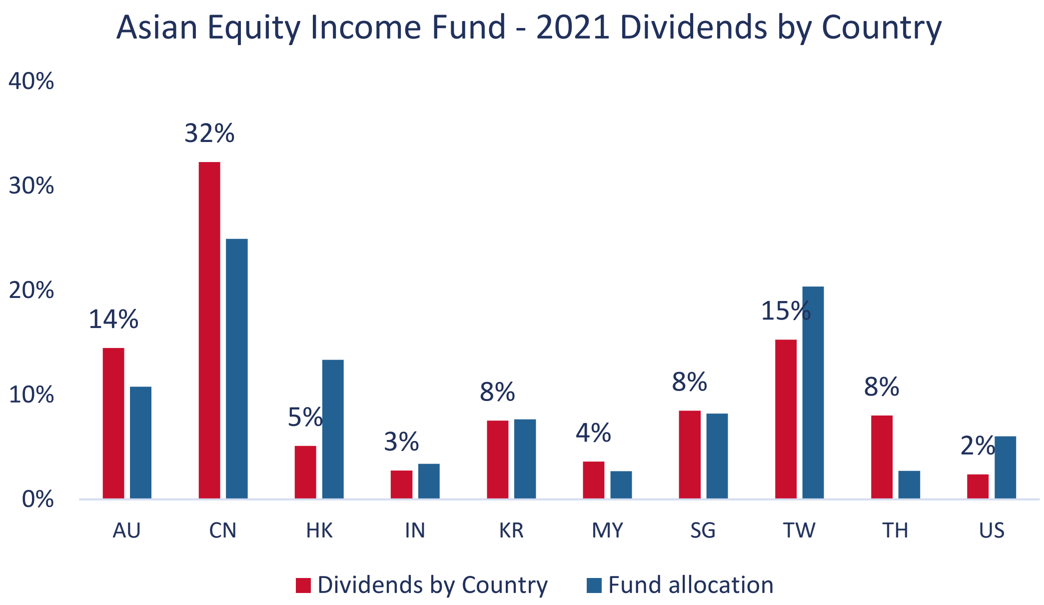
We concentrate, therefore, on identifying quality companies; those whose market position, competitive advantage, exposure to growth themes is both sustainable and translates into growing profits, delivered in cash terms, and evidenced by a commensurate growth in the dividend distribution. The valuation analysis we do, to decide on whether a stock is cheap or not, is based upon the level and sustainability of that profitability.

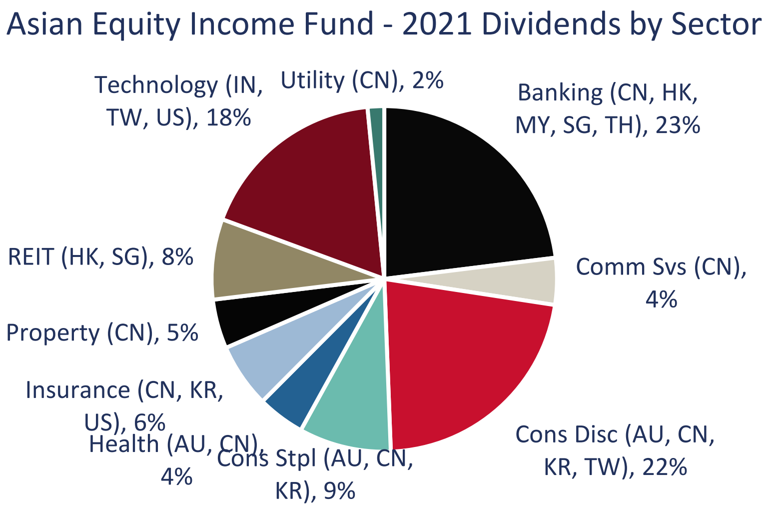
The opportunity we seek to identify is where we are convinced that the persistence of a company's profitability is under-priced by the market. In plain terms, we look for companies where we believe the profit rate of return on invested capital will persist but whose shares are priced as if it won't.

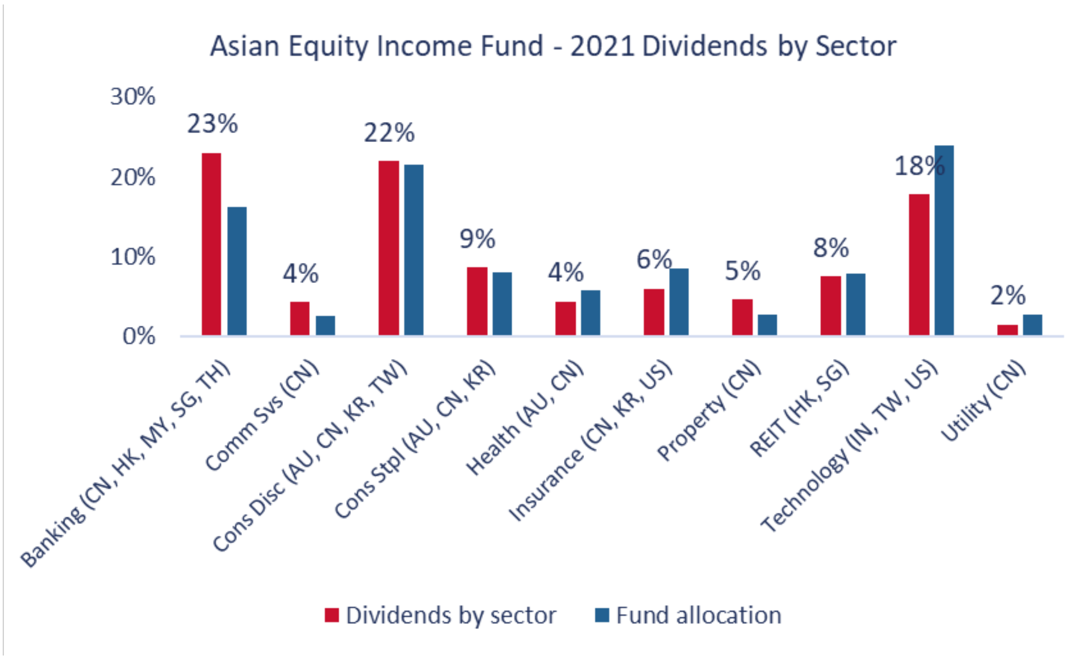
A broad range of income sources

The sources of dividend income, received and distributed in 2021 are shown in the charts below. The split aligns with the Fund's allocation on both a country and sector basis and shows an absence of concentration. Australia, with its 75%-80% pay-out ratio and concentration in banks and materials for example, may be the largest single source of dividend income in the region but the Fund does not choose to allocate to it for income and allocate elsewhere for growth. Our intention has been, and remains, to find a diversity of quality, growing dividend paying companies across the region and across sectors.









Based on dividend income received and due to the fund included in 2021 distribution converted into the Fund's base currency, USD.

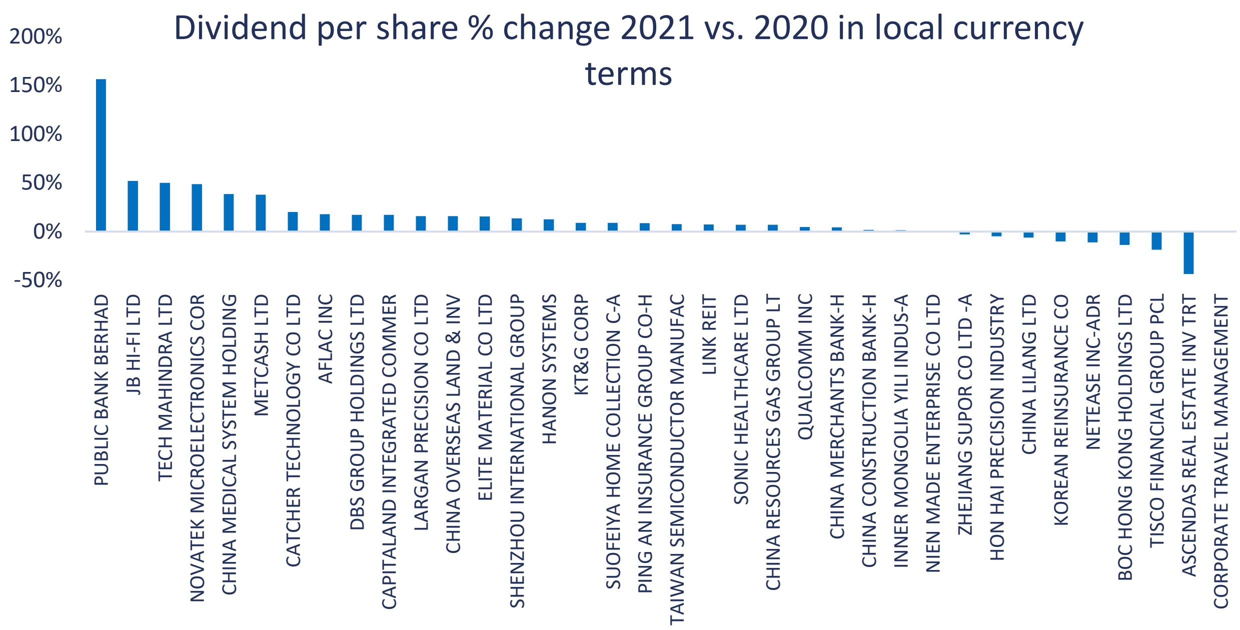
Source: Guinness Global Investors.

Dividend Actions

In 2021, out of our 36 holdings:

- 26 companies grew their dividend
- 1 company kept its dividend flat
- 8 companies reduced their dividend
- 1 company omitted the dividend

The chart below shows the percentage change in dividend per share for each of our portfolio companies. The changes at the extremes, Public Bank in Malaysia +156% and Ascendas REIT -43%, are the result of technical factors such as the restoration of a dividend previously omitted and further supplemented, or a timing difference in distribution date. For the rest, these reflect improved operating conditions or greater certainty in outlook which meant that prior conservatism was no longer required.



Dividend declared and the shares gone ex-dividend in 2021, in local currency terms. Source: Company reports.

The three fastest dividend growers, after Public Bank, were Australian electrical retailer JB Hi-Fi, Indian IT consultant Tech Mahindra and Taiwan semiconductor designer Novatek Microelectronics.

We have held JB Hi-Fi since the fund was launched eight years ago and the company has a solid track record in the highly competitive Australian market. The company has been a particular beneficiary of home-office working but it has also started to realise benefits from the acquisition of household consumer durable goods business, the Good Guys. The 52% increase in dividend distribution this year follows the 71% increase in earnings in 2020.

Tech Mahindra's IT consultancy business differs from its Indian peers by virtue of its exposure to the telecom sector. For many years this has been a slow-growth segment but the advent of fifth-generation mobile telecommunications technology (5G) changes things. The wide range of applications for consumers, but more importantly for businesses, has revitalised this company. During COVID it was unable to carry out billable work, so earnings suffered, but it was winning new contracts. As the world began to re-open, revenues picked up. After an earnings decline of 7%, profit growth reaccelerated to 27% in calendar year 2021 and is forecast to grow a further 16% in the next 12 months. This prompted an additional special dividend which delivered 50% dividend growth on top of a doubling of the dividend in 2020 over 2019.

Novatek Microelectronics is a fabless chip designer. It relies on other wafer fabrication plants to manufacture the chips it designs. There has been a step change in revenues with its growing range of screen driver chips applicable to TVs, monitors, notebook PCs and cars as well as for its combined System on Chip designs for use in handheld devices. Now that smartphone makers more widely are adopting brighter and more energy efficient (OLED) displays, the market for Novatek's chips has been growing fast, enabling the company to raise prices across the board. Earnings for the company grew over 50% in calendar year 2020 and are expected to have tripled this year. The dividend distribution grew 20% in 2020, buy 48% this year and is forecast to grow meaningfully again next year.

The news is not bad even at the weaker end of the spectrum.

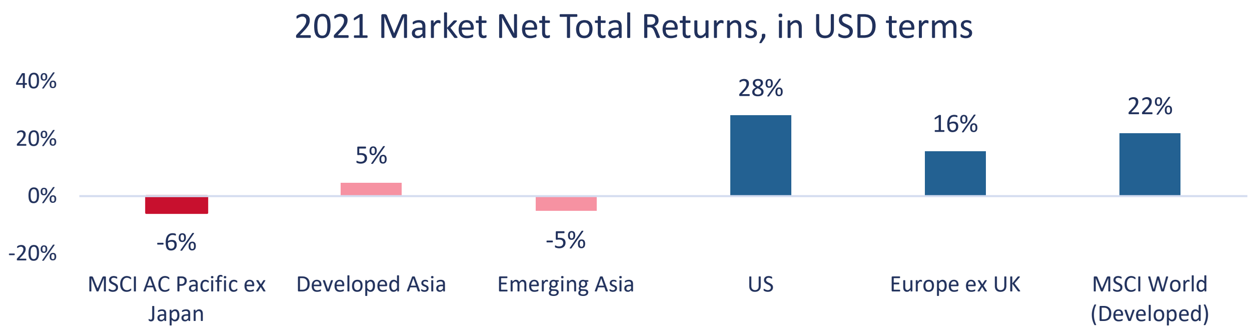
Tisco Financial was obliged by the Bank of Thailand to restrict distributions from bank earnings to 50% of the prior year. However, Tisco also has non-bank financial businesses in the group including asset management and brokerage. By maximising the distributions from these divisions, Tisco was able to limit the decline to -19% year-on-year. The company felt able to do this because the banking business has been well run and well capitalised for many years. Management has been prudent in setting aside reserves over time against possible future bad debt. Non-performing assets are over 2 times covered by reserves and importantly, non-performing assets as a percentage of the total has remained steady at around 2%, at the lower end of the range over the past seven years. The market forecasts a recovery in the 2022 dividend to a level higher than that before the pandemic.

BOC Hong Kong's dividend fell 14% in 2021, which compares to an earnings decline of 24% over the same period. Margin compression was due to a narrowing spread between interest received and interest paid; fee income was higher and credit quality remain sound, resulting in lower credit costs. Its capital strength and market position leave 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 channel through which international investors can buy domestic Chinese bonds).

NetEase is a Chinese videogaming company which has been able to negotiate its way through the regulatory changes being made in its domestic market. It is helped by being highly successful in overseas markets and not just China. The company's dividend policy is based on earnings which include currency movements. The strength of the renminbi meant that overseas earnings were less valuable when translated back into the reporting currency. The dividend fell 11% but the distribution was consistent with policy. The company's videogame pipeline looks strong, and the music streaming/advertising businesses, which the company categorises as Innovative Businesses, have also been growing well.

Market Review of 2021

The region underperformed developed markets in 2021 but as we look ahead we see earnings picking up and valuations not only well below developed market regions but also at a discount to the historic average for Asia.



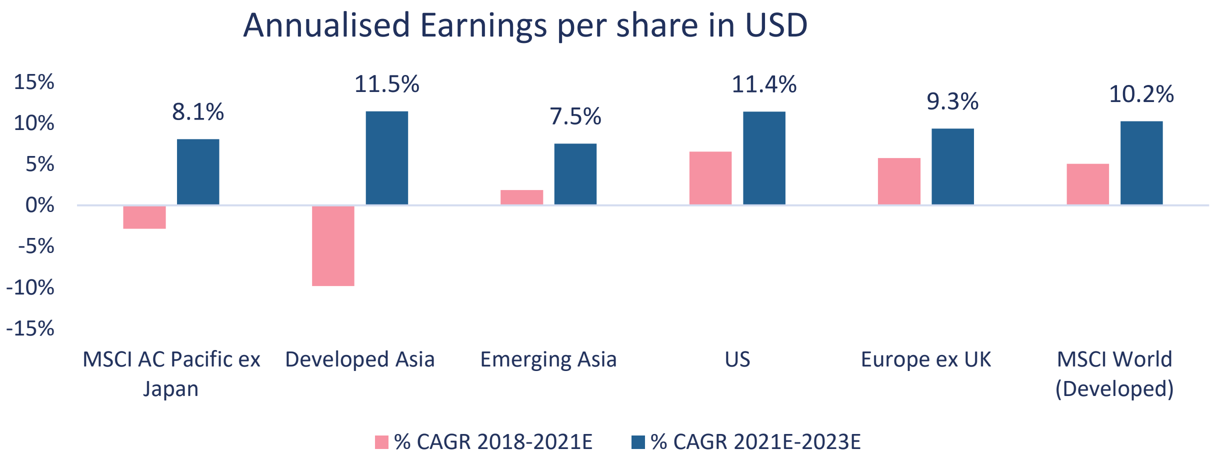
Developed Asia as measured by MSCI Pacific ex Japan NTR Index, Emerging Asia by MSCI EM Asia NTR Index, US by S&P 500 NTR Index and Europe ex UK by MSCI Europe ex UK NTR Index, all in US dollar terms to 31/12/21. Source: Bloomberg.

To understand this a little better, we begin by taking a look at earnings. Asian earnings, as measured by the benchmark MSCI AC Pacific ex Japan Index, rose 43% in US dollar terms in 2021. However, this has been a most extraordinary period and we think that looking over the past three years and then prospects for the next two years is more useful.

In the past three years, from the end of 2018 to the end of 2021, which includes the recent rebound, regional earnings growth declined by an average 3% per annum (p.a.). Those for the US, as measured by the S&P 500 index grew 7% p.a. over the same period while in Europe, as measured by the MSCI Europe ex UK Index, they rose 6% p.a. The MSCI World Index aggregates developed markets including Japan and developed Asia, and earnings for this group grew 5% p.a.

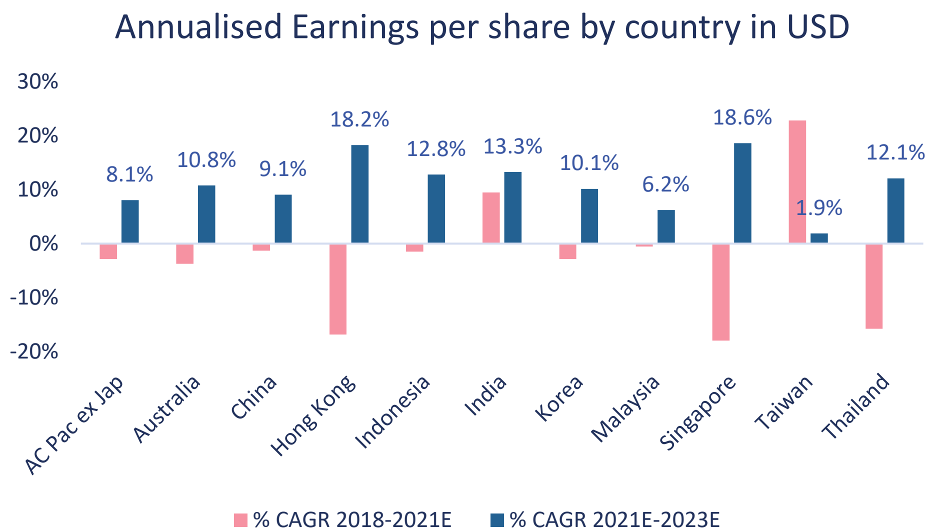
In Asia specifically, sharp drops of 16%-18% in the smaller markets of Hong Kong, Singapore and Thailand are the most eye catching, but it was the more moderate yet persistent earnings declines of 4% p.a. in Australia and 1% p.a. China that had the most impact on the benchmark.

Over the next two years, based on consensus estimates at the end of 2021, regional earnings are forecast to grow 8.1% p.a. in US dollar terms. The developed Asian markets of Australia, Hong Kong and Singapore lead the way, together rising 11.4% p.a., with Emerging Asia, which includes China, rising 7.7% p.a. (For completeness, earnings for the S&P 500 index are forecast by the consensus to grow 11.5% p.a. and Europe ex UK forecasts are for 9.3% p.a.).



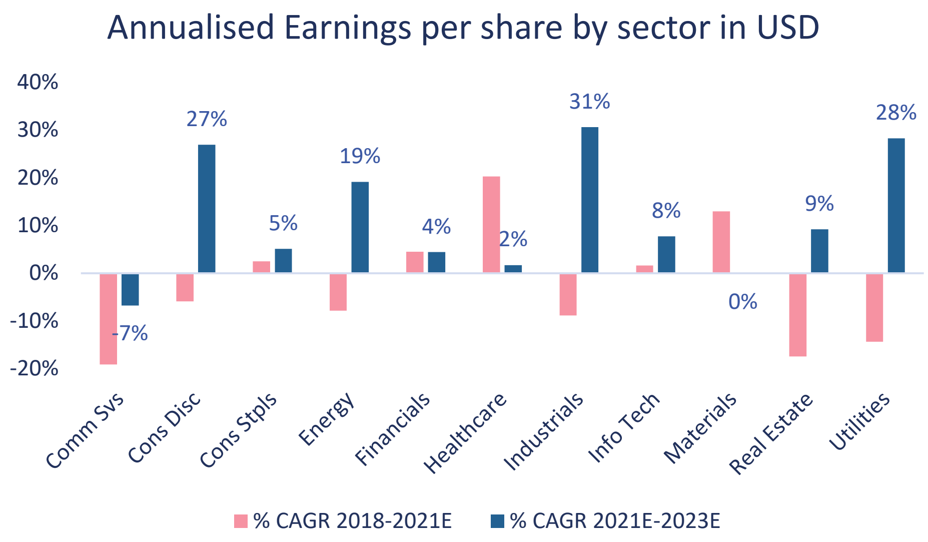
Developed Asia as measured by MSCI Pacific ex Japan Index, Emerging Asia by MSCI EM Asia Index, US by S&P 500 Index and Europe ex UK by MSCI Europe ex UK Index, all in US dollar terms as at 31/12/21. Source: Bloomberg.

The recent earnings history and prospects for individual Asian countries can be seen in the chart below. Looking at the blue bars we can immediately see the expected rebound for Hong Kong after a troubled three years and in Singapore where COVID has proved especially disruptive to the smaller, open economy. Thailand too is expected to see something of a relief after the hit to its tourist industry and export manufacturing sector. Taiwan by contrast is expected to see deceleration after its substantial earnings outperformance over the past three years driven in part by the well-known supply shortages of semiconductor chips and, perhaps less widely known, by the surge in earnings for shipping lines (Evergreen, Yang Ming Marine and Wan Hai Lines) as rates soared.



MSCI region and country indices in USD terms as at 31/12/21. Source: Bloomberg.

Earnings prospects on a sector basis suggest that in the cyclical areas the market consensus thinks Materials (including metals and mining) have had their time, whilst Energy (mostly oil and gas) has further to run. The Healthcare sector too, is expected to see earnings growth trail off as the pandemic rolls on (and off soon, we hope). Consumer Discretionary stocks are expected by the consensus to rebound while Communication Services, in which Chinese companies dominate, are expected to decline further. The recovery in Industrials and Utilities, which account for 6% and 2% respectively of the regional benchmark, reflects an expectation swing from steep earnings drops in some cases such as airlines, for example.



MSCI AC Pacific ex Japan sector indices in USD terms as at 31/12/21. Source: Bloomberg.

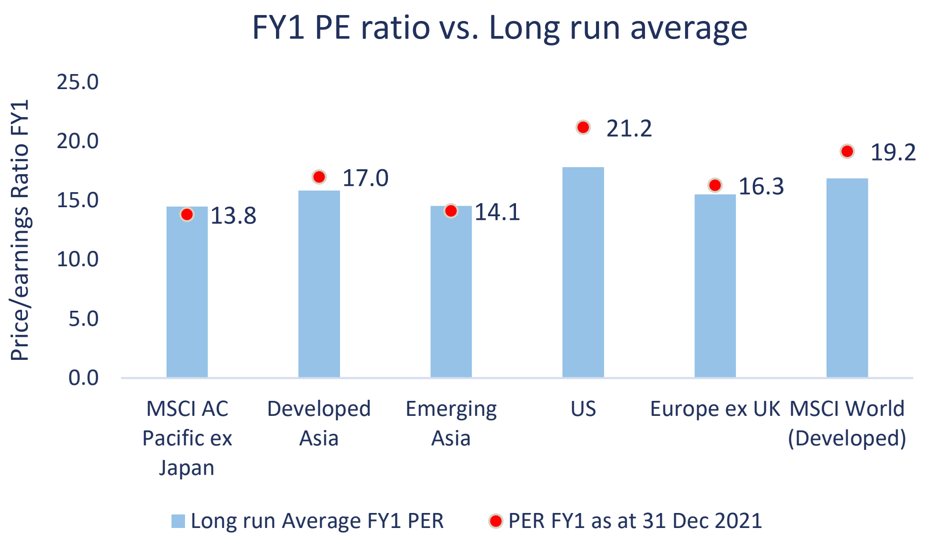
All of this gives us a useful view of companies' operational progress at an index level, but we need to remember that Asian indices are often dominated by a few very large companies which can mask opportunities that lie within countries and sectors which, at the aggregate level, may look less interesting at first glance. Where it starts to get more interesting is when we look at valuations; for example, Asian earnings may not look as strong as those of developed markets but the valuation differential makes them more so, in our view.

The Fund's prospects look even more interesting, we think, when we see:

- earnings growth on an historic basis to have been more robust than that of regional and developed markets;
- prospective earnings growth at a premium to the region and just behind developed markets; and
- a valuation that is at a 20% discount to regional markets and at a huge 40% discount to developed markets.

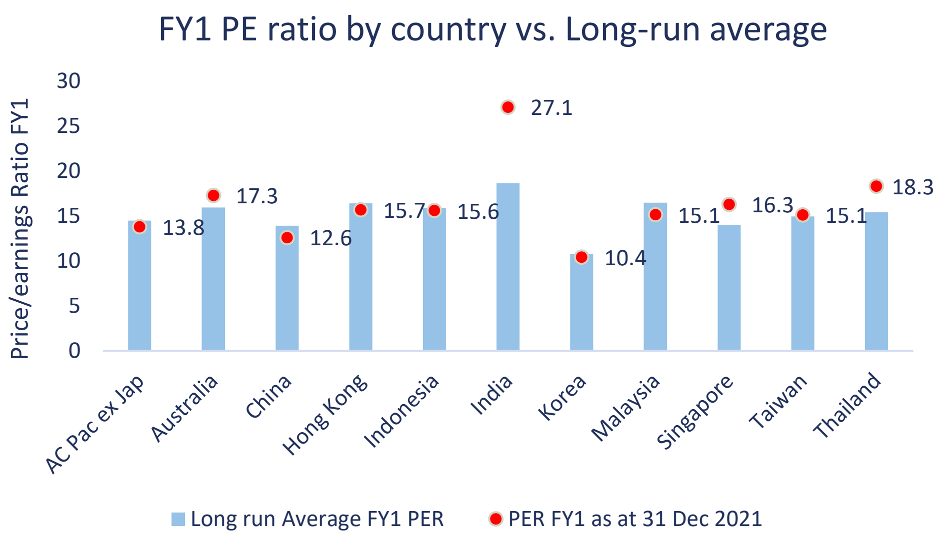
But we shall get to that in the Outlook section.

We compare valuations of the different regions, using their 1-year forward Price Earnings (PE) ratios, with each other and against their own historic averages. For the MSCI AC Pacific ex Japan Index and for Emerging Asia we use the 5-year historic average as reference point because the inclusion of Chinese technology companies listed in the US in 2017 fundamentally altered the structure of those indices. For developed markets, including developed Asia, we use 10-year averages for comparison.



Developed Asia as measured by MSCI Pacific ex Japan Index, Emerging Asia by MSCI EM Asia Index, US by S&P 500 Index and Europe ex UK by MSCI Europe ex UK Index, all in US dollar terms as at 31/12/21. Source: Bloomberg.

The first thing that becomes apparent is that only in Asia, and specifically in Emerging Asia, is the forward price earnings ratio, signified by the red dot, at a discount to its long run average. The Asian region has been put to one side by asset allocators and now that earnings are picking up there is a chance of finding some good value. But where to look?



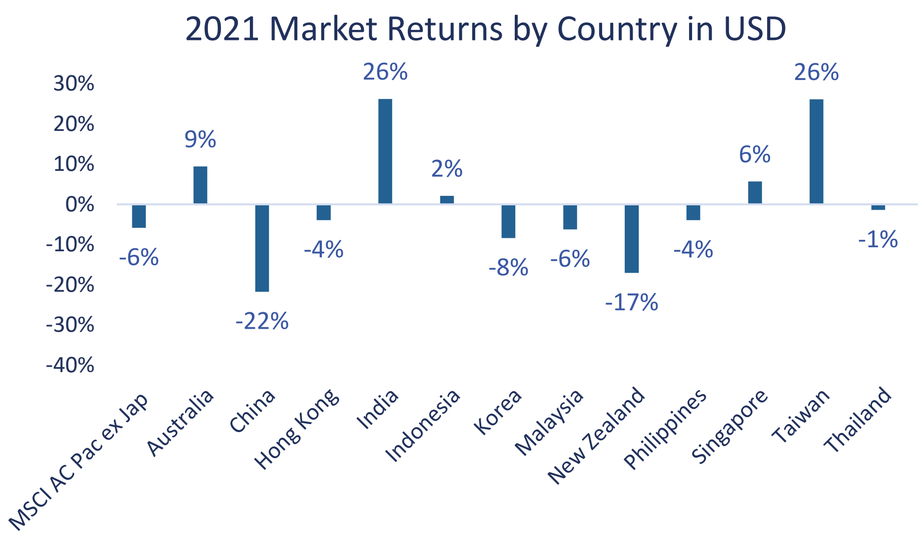
MSCI region and country indices in USD terms as at 31/12/21.

Source: Bloomberg.

China's weight in the regional index was 35.6% as at the end of December. Its current valuation, at a discount to its five-year average, has taken all the (excessive) growth expectations out of the valuation with the biggest effects being felt in the Communication Services and Consumer Discretionary sectors (18% and 30% weights respectively in the MSCI China Free Index). However, as we look down the list of China sectors, all of them, with the exceptions of Healthcare and Utilities, are trading below their long-run averages. We shall discuss our views on Chinese prospects later, but for now suffice to say, we believe there are opportunities here.

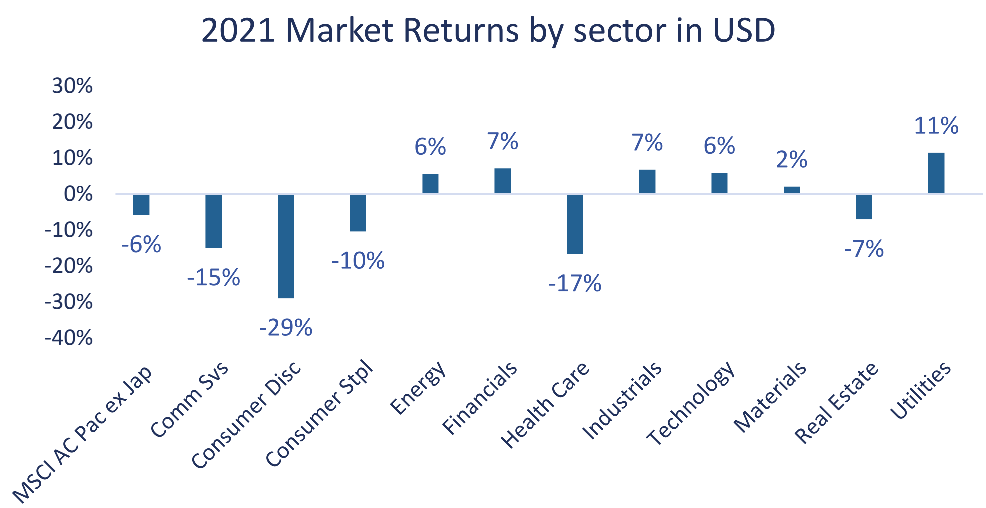
Most other markets in the region also appear to be trading at or a little below their long-run averages. The exceptions are in Singapore and Thailand where earnings forecasts have come down further following the arrival of the Omicron COVID variant which has delayed their re-opening; and in India, whose market has been on a run that we think far exceeds the achievable earnings growth that such a move implies.

Asian market returns in 2021 were marked by a significant spread between highs and lows. China, which as we said earlier accounts for 36% of the benchmark, fell 22% in USD terms whilst Taiwan, accounting 18% of the index rose 26%. India, which is not in the benchmark, but to which we have exposure, was also a strong performer, also up 26%.



MSCI region and country net total return (NTR) indices in USD terms as at 31/12/21. Source: Bloomberg.

Performance by sector was marked by some significant weakness in certain sectors. The Consumer Discretionary sector, which accounts for 14% of the benchmark and is furthermore dominated by familiar Chinese names, was down 29%. Communication services, with its 10% weighting, also dominated by China, fell 15%. Healthcare pulled back 17% having arguably been 'overbought' in 2020, but it accounts for only 6% of the benchmark. The performance of Financials and Technology, which combined account for 43%, while more modest in absolute terms, mitigated the significant weakness in the consumer sectors.



MSCI AC Pacific ex Japan sector indices in USD terms as at 31/12/21. Source: Bloomberg.

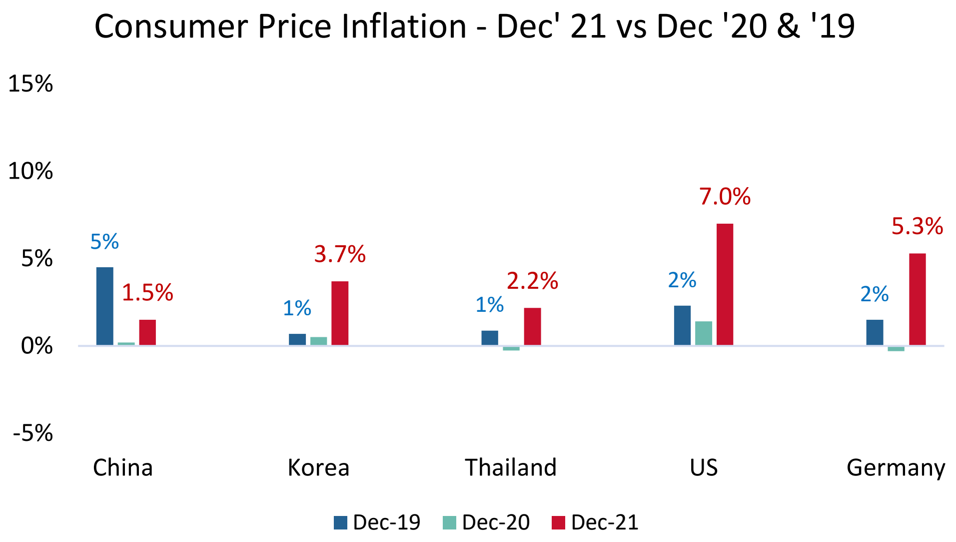
Macro factors that have dominated market performance over the course of the year, some of which are interrelated, can be categorised under:

- Global consumer price inflation, policy response and interest rates
- Producer price inflation

- Semiconductor supply
- Exports
- China domestic policies - market regulation, debt reduction
- COVID

Helped by massive stimulus from central banks, coupled with unprecedented welfare programmes and government spending, US GDP is estimated to have grown 5.6% in 2021. Together with excess savings and pent-up demand, the rapid recovery in 2021 left many economies short of supplies and staff. Ports from Los Angeles to Shanghai became increasingly congested as companies battled to get hold of vital materials, whilst labour markets also tightened as companies faced skills shortages and in turn offered higher wages. The US unemployment rate ended the year at 4.2%, compared to 14.8% at the nadir of 2020, and accompanying that came an explosion in inflation.

Consumer price inflation has taken off in developed markets with the most recent data recording a 7% increase in the US, 5.3% in Germany and 5.4% in the UK. A year ago, inflation was 1.4% in the US, 0.6% in the UK and was negative in Germany. Asia has also seen consumer prices move higher, but to nothing like the same extent. Korea is the only one that has felt a need to raise interest rates in response to domestic price increases. This is not to say that interest rates in Asia will not rise, but any moves are likely to be in response to widening interest rate differentials, as action is taken in the US, and to mitigate the impact on currencies by portfolio flows.

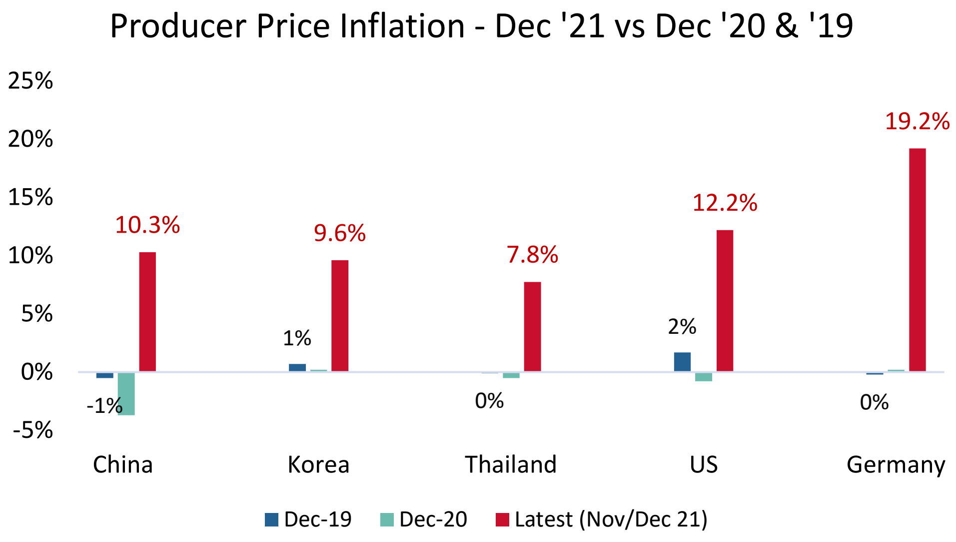


Sources: China National Bureau of Statistics, Statistics Korea, Thailand Ministry of Commerce, US Bureau of Labor, German Federal Statistics

For stock markets, the increase in bond yields, especially in the US, in anticipation of rising policy interest rates has had an impact most keenly felt by Growth stocks. Growth stocks are often associated with high valuations that are based upon significantly higher profit assumptions projected into future. Higher interest rates now mean that present value of these profits (i.e. what those future profits will be worth to us in today's money) comes down; and so too does the value the market puts on those earnings. Investors have demonstrated a clear preference for stocks that have a greater Value tilt; these are stocks whose earnings are coming through now and for which the market has priced in much less for future growth. The Asian Equity Income Fund holds stocks that are well suited to these conditions.

One of the key factors that lies behind the consumer price inflation spike, which does have an effect in Asia, is the rise of factory input prices, Producer Price Inflation (PPI). The cost of materials and components, from wood to semiconductors, has risen sharply. In the case of some materials, like iron ore, the price increases have rolled over. At the end of 2019 the spot price for iron ore (62% Fine grade at Qingdao port) was $86 per metric tonne; by 30 June 2021 it had risen to $211/tonne and the mining stocks in the Asian Materials sector were doing very well. By the end of the year the price had fallen back to $114/tonne. Dry bulk shipping rates for the transport of ore, grain or liquids, as measured by the Baltic Dry Index, are down 40% from the peak in October and are now back to pre-pandemic levels. The pressure is still on for container shipping rates (as measured by Drewry's World Container Index) which, though below their peak are still 5x higher than at the end of 2019.

The rise in PPI is felt across all manufacturing economies, irrespective of region and obviously is not just impacted by metals like iron ore. High energy costs persist worldwide and tightness in the transportation network also adds to cost pressures. We are now seeing how a globally 'efficient' supply chain has risks associated with the limited slack built into the system to cope with disruptions. And we have seen many, from partial port closures due to COVID, to insufficient rolling stock to move goods inland and we even saw the Suez Canal blocked for a week.



Figures for Germany and Korea are for November 2021.

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

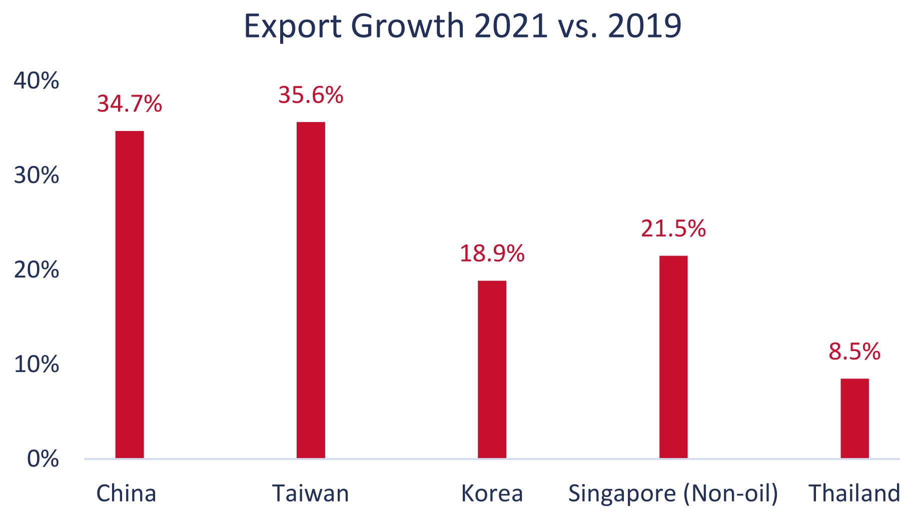
PPI numbers in December have come down a little, to 10% in China from 12% in November and to 12% in the US from 13% in November. Another positive sign is the December figure for US ISM Manufacturing Business Prices which fell 17% from last month and is down 12% over a year ago. This data series tends to lead US PPI by around six months and indicates an easing of pressure in the supply chain. This lends support to the argument that headline inflation may see easing 'cost-push' pressure and may ease from current levels during the year. But we still expect average headline inflation in 2022 and 2023 to be markedly above the levels of recent years.

For the Asian region, which specialises in manufacturing, the path of PPI is important. The focus for them is on costs and the ability to pass them on where they can, to protect margins whilst simultaneously trying to limit the impact on demand. All our manufacturing businesses from household goods, consumer durables, textile makers and semiconductor producers have reported this issue. They have responded in various, and sometimes multiple, ways. For our textile maker Shenzhou International, the combination of improved productivity due to capital investment in the past three years plus some cost price pass-through has kept the business growing. In the case of our shutters and windows maker Nien Made Enterprise or cookware and kitchen appliance maker Zhejiang Supor it has been an altered product mix, developing new distribution channels or new production location that has enabled a combination of cost saving, cost pass-through and higher average selling prices to carry them though.

The semiconductor supply shortage is well known since this is one of the most widely felt supply issues affecting products ranging from household appliances to cars to consumer electronics. The impact has also been felt in commercial capital equipment. Part of the problem has been the speed of economic reopening, but manufacturers have also been caught out by the surge in demand coming through from the development and expansion of cloud computing and faster 5G technology, all of which require faster servers, and by the Internet of Things (which describes the connectivity between a wide array of devices). The chip shortage is estimated to have wiped out $200 billion of sales for car makers last year. Apple too, said it lost $6 billion of sales in the third quarter and no doubt lost more than that in in last three months of the year.

Semiconductor manufacturers such as wafer foundry Taiwan Semiconductor Manufacturing Co. (TSMC), which we hold in the Fund, have been operating at full capacity. TSMC had already announced plans to invest $100 billion over the next five years. However, in response to market needs and to pressure from the US to locate production closer to the home market, TSMC announced that having spent $30 billion last year they now budget for up to $44 billion of capital expenditure on new facilities and more advanced production technology in 2022. They can afford it. The company reported that it generated $40 billion in cash from operations, that it has $38 billion in cash on its balance sheet and total debt of $26 billion (33% of equity). The indications are that the supply shortage will persist well into 2022 and may not ease materially until next year, keeping conditions favourable for the chip makers and their equipment suppliers but tough for their customers for a while yet.

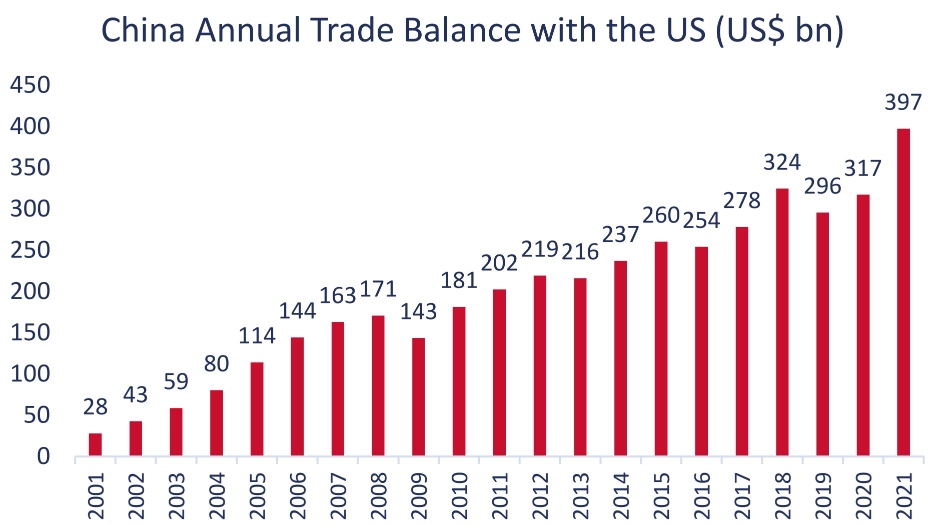
Trade growth remained a bright spot across Asia even as consumers have been buffeted by on-again off-again COVID restrictions. It has been a sustaining force for consumer confidence in Asia. Countries have reported exports growth above 2020 levels, but importantly can point to higher export growth by value over 2019.



Figures are for the full 12 months except for Thailand, which show an 11-month comparison for 2019 and 2021. Sources: China Customs, Taiwan Ministry of Finance, Korea Ministry of Trade, Enterprise Singapore, Bank of Thailand.

The varying rates of growth reflect the different product mix coming from these countries. For example, Taiwan's pre-eminent position in technology manufacturing explains its rapid growth. Korea is also engaged in technology manufacturing, but it has a much more diverse export mix that includes capital equipment, petrochemical plant and ships. Car exports are substantial through Hyundai and Kia in particular, which have been affected. It is also a major producer of household appliances, another area that has been disrupted. Thailand has a bigger export manufacturing sector than is often realised and these have been affected by the same forces we have seen in Korea. Japanese car makers have a big presence there and so their disruptions are Thailand's disruptions. Thailand is also a big producer of electronics components such as hard drives.

China's export manufacturing sector covers a huge range of consumer goods and there has been a big focus in recent years on developing a local supply chain for components. This was something for which the Chinese have been criticised in the past but it has come into its own in the last two years. Merchandise trade (exports and imports of goods) exceeded $6 trillion for the first time. This was accompanied by a record trade surplus of $676 billion, 3.9% of estimated 2021 GDP. This surplus is one of the reasons why the Chinese yuan has been so strong in the last couple of years, up 2.6% against the dollar in 2020 and 9.5% higher since the end of 2019. US efforts to restrain China's export industry and its trade imbalance remain in place. The success of these efforts can be judged by tracking the progress of China's trade surplus with the US:



Source: Bloomberg

China's domestic policies in 2021 have been the most contentious issue for investors, but although swift and with high immediate impact in implementation, the underlying rationale is consistent with both China's stated aims and indeed what we are seeing in Europe, the US and the UK.

First, let's take the former market darlings, the e-commerce and technology businesses. This small group of Alibaba, Tencent, JD.com, Meituan, Pinduodo and Baidu have come to dominate China's next-generation consumer through entertainment and product distribution and were advancing into banking and finance through FinTech offerings. To an increasing extent they were setting the rules, and the price while at the same time accumulating vast quantities of data. The companies were operating almost entirely free from market supervision and the market was becoming concentrated. Hearing merchants complain about the constraints and the obligations placed upon them to operate on Alibaba's platform or Tencent's creation of an environment from which users never need to leave nor competitors gain access, and we get a picture of monopoly-style anti-competitive behaviour. China's system is one which, while we do not seek to promote it, can move swiftly and decisively to re-shape the market. The question is whether these imposed regulatory changes are capricious and arbitrary or whether they represent a positive move for a healthier market over the long term.

Secondly, we have seen a dramatic upheaval in the house building sector among the privately owned development companies. For years, they have based their growth model on debt funding and their balance sheets have become increasingly bloated. At the same time, China has been criticised from both within and without for the high levels of debt with now push 300% of GDP. The problem is not at the government or household level but amongst non-financial companies whose aggregate debt stands at around 170% of GDP. China's policymakers and central bankers have tried to bring this level down and they have addressed much of the local government debt pile built up by special purpose vehicles. But outside of them no group has built up debt faster than the real estate developers and amongst them, none more so than Evergrande.

In August 2020, China drafted a policy dubbed 'three red lines' to assess real estate developers' financial strength against the following criteria:

1. Total liabilities to be no more than 70% of total assets
2. Debt less cash (net debt), cannot exceed the value of equity
3. The cash balance must be greater than the short term (due within 1 year) debt balance.

If the company passes all three, then it is permitted to increase debt by 15% over the prior year. Fail one and debt growth is limited to 10%, fail two and the limit is 5%, fail all three then no further debt growth is permitted. Evergrande, with its $300 billion in liabilities, failed all three and thus as its bonds matured and refinancing was required the company found itself unable to take on debt and so faced a liquidity crunch. The important development here is that despite its owner's favoured party status the government has held the company to its obligations and forced Evergrande to shed assets, meet its debt obligations or require the company and investors to take the hit. The message to the rest is clear.

Our view is that in both cases, while the speed and manner of implementation looks alarming, China's actions make sense. We do not see this as the death knell for private enterprise in the e-commerce sector, nor do we expect policy makers to push the wider property market so hard that we see a house price collapse. In the case of the former, the e-commerce companies still have a vital and central role to play in the development of the consumer market, but they will do so in a framework established and monitored by government and not by the companies. In the case of the property sector, land and property play an important role as a source of revenue for local governments, is widely used as collateral for bank lending, and for consumers, is a store of wealth. It is in no one's interest for it to collapse.

Consequently, we have recently seen the harsher elements of policy being eased – the squeeze and release approach adopted regularly over the past 20 years as the government seeks to effect change. The drag on economic growth has been clear and in addition to administrative easing we have seen monetary policy also come into play. China's central bank, the People's Bank of China (PBOC), showed more easing bias in its operations, while staying cautious on the aggregate level of leverage in the economy. In early December, the PBOC cut the Required Reserve Ratio (RRR), a liquidity management tool used by the central bank to adjust the level of new bank lending, by 0.5%. Most recently, for the first time in nearly two years, the PBOC cut the benchmark 1-year Loan Prime rate by 0.05% to 3.8%. The 5-year rate remained unchanged at 4.65%. We think there will be further moves soon.

From a portfolio perspective, we see these actions as being particular and targeted. Many other areas in the consumer, financial, health care and industrial complex offer growth and the operating environment is unchanged. The effect has been to drive down valuations for internationally traded Chinese equities and we see opportunities in areas that are either unaffected or are aligned with long-term policy objectives.

Fund Review

Over 2021 the leading contributions to performance came from exposure to Technology in India, Taiwan and US, from Health Care in Australia and China. Perhaps the most encouraging part of the picture was the fact that stock selection rather than asset allocation was the main driver on a sector basis. On a country basis, it is worth noting that while the Fund is underweight to China, which helped on one level, it holds more there than many of its peers, and stock selection added significantly to performance through stocks like China Medical System, China Merchants Bank, NetEase. There were also benefits from both sides of our switch, locking in a gain when we sold China Mobile and capturing an additional gain from the purchase of China Overseas Land & Investment.

While portfolio stocks made a positive contribution, the Fund also made a substantial relative gain against the benchmark because of share price weakness in index heavyweight stocks that it does not own, in the first instance because of a low or absent dividend. Alibaba had a horrible year, ending 2021 down 48% in US dollar terms, while food delivery company Meituan and Tencent fell 24% and 21% respectively. Korean giant Samsung Electronics also struggled and was down 10% as supply chain issues dogged the business. These have not suddenly become bad businesses; they are facing a mix of intensifying competition and regulatory change in China, or in Samsung's case, supply chain and cyclical headwinds. 2021 was not their year, but we have no doubt that they still have a big part to play in the China and Asia story.

Of the top 10 stocks in the index, only Taiwan Semiconductor Manufacturing Co (TSMC), which we hold, and Commonwealth Bank of Australia, which we do not, made significant headway, with both up 21% in USD.

In first half of 2021, the benchmark rose 5.1% in GBP. Fund performance in the first half of the year was led by China Medical System, a pharmaceutical distributor and manufacturer, which more than doubled as earlier worries about the impact of drug pricing changes proved unfounded. This performance was also well supported by China Merchants Bank, by consumer companies Shenzhou International (textiles) and Nien Made Enterprise (shutters and windows), by insurance companies Aflac and Korean Reinsurance, and by technology stocks Elite Material, Hon Hai Precision and Novatek Microelectronics.

In the second half the Index fell -9.7% in GBP. The third quarter was a nervy period as rising costs and supply chain disruptions began to show up in the data. Rising energy costs became more evident in the US and Europe; then came news that China had to limit electricity supplies to industry as coal-fired power stations, which still account for over half of the country's electricity production, ran short of fuel and the Index fell -8.4% over the quarter. In the fourth quarter, although the fund benefited from portfolio stocks reporting operating results, the Index was down -1.4%.

The second half period encompassed the most challenging period for Asia, and China in particular, from a top-down perspective. In July, China moved swiftly to challenge the technology titans that dominate the consumer markets with a swathe of investigations into data protection and anti-competitive activity. An Initial Public Offering of yet another technology business in New York collapsed after the company failed to heed warnings from regulators and found its business operations severely curtailed as a result. The story of China's economic growth since 1992 features several entrepreneurs who have built businesses substantial enough to lead them to believe they can operate as independents, only to be roundly disabused of that notion. In football terms, we must remember to think of China's project as a 'Team China' endeavour. No player can be bigger than the club. None of the portfolio's positions was captured as this was reaffirmed.

The second big event in China was the imposition of the financial thresholds established for property developers that set their ability to grow debt. This had a chilling effect on the housing market as developers were forced to accelerate home sales to raise cash. Besides Evergrande's well-publicised liquidity crunch, there was a drip-feed of smaller developers who, although apparently liquid enough, found that they too could not meet debt obligations, particularly their offshore debt obligations denominated in US dollars. Chinese banks also involved themselves by closing off credit lines even to developers that met the tests, prompting the central bank to intervene.

This uncertainty was felt by three of our stocks in particular. Ping An Insurance has exposure to the real estate market amongst its investments, and the perceived risk here, coupled with slowing new business writing, made this our weakest holding over the year. Suofeiya Home Collection makes furniture which it sells both to retail customers and through a significant commercial channel for developers selling partly fitted out apartments. Evergrande was one of those customers, and Suofeiya's stock sagged before recovering as exposure looked limited, sales growth in the rest of the business remained strong, and signs of pressure on the property sector began to ease. Zhejiang Supor, a manufacturer of cookware and small kitchen appliances, was also affected to some degree by weaker consumer confidence related to the housing sector. Other factors played their part, including higher input costs and a slower recovery in offline sales. Here too, Zhejiang Supor reported accelerating sales momentum and the stock rebounded along with Suofeiya in the fourth quarter.

While expectations related to COVID, China, inflation and interest rates evolved through the year, a constant factor remained the supply shortages in semiconductor chips which has affected products from appliances to consumer electronics, to cars, and to industrial equipment. Some customers have been prioritised (and to the frustration of senior executives, car makers were not in front), with a greater emphasis seemingly placed on computer infrastructure, data centres, 5G telephones and high-end consumer electronics. But in truth, all buyers of chips have been affected to some degree. This has been of great benefit to electronics manufacturers in the Fund such as TSMC and Elite Material Co. We discussed TSMC's expanded capital expenditure plans earlier. Elite Material used to focus exclusively on the smartphone sector, which is still a significant part of the business, but the growing demand for large server equipment for data centres to support cloud computing has now become a major new business area in which Elite Material is gaining meaningful market share.

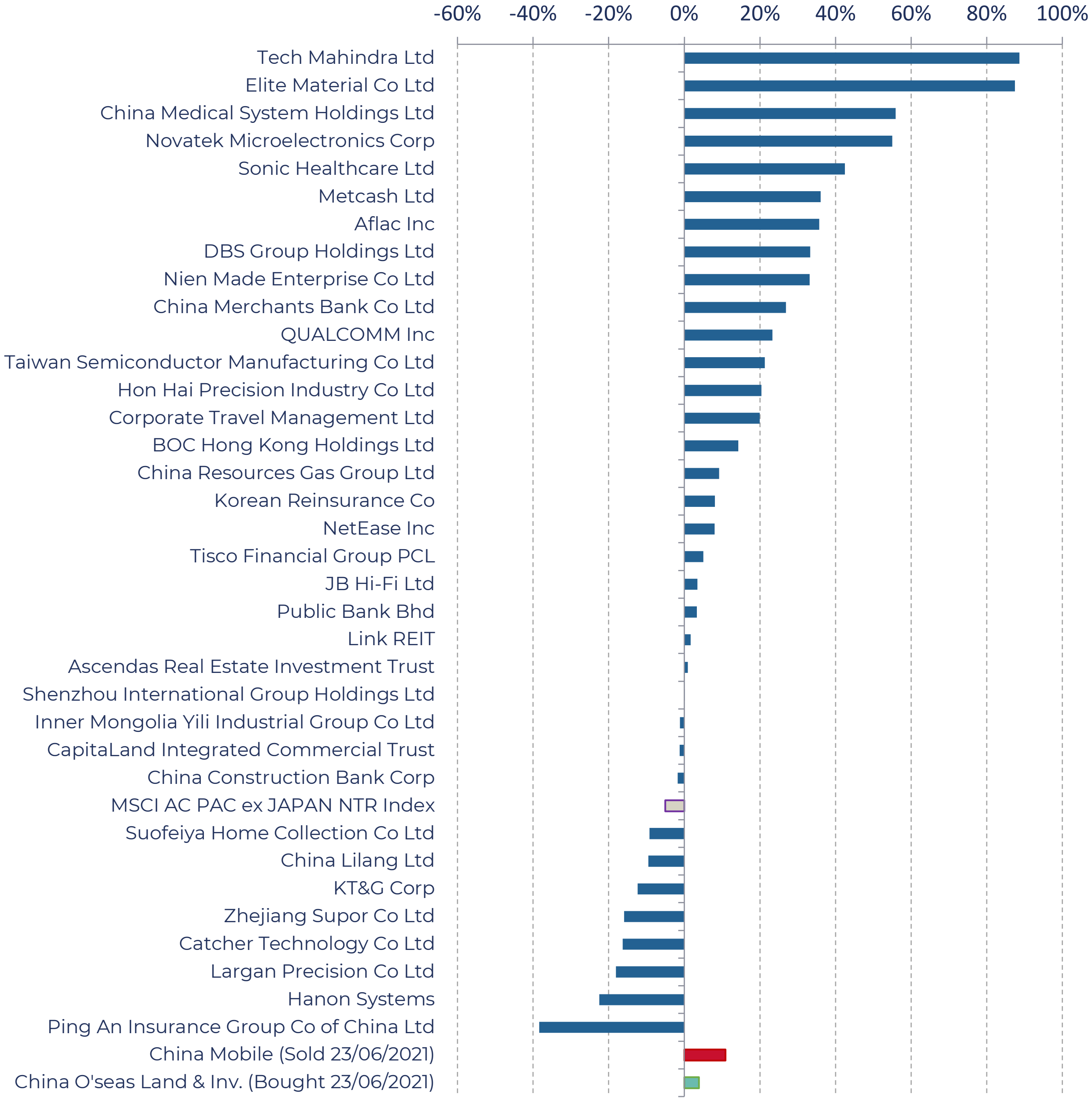
The adoption of 5G has meant a significant upgrade for handheld devices by a greater number of producers needing bigger and better screens and more processing power. Chip designers Qualcomm and Novatek Microelectronics, that provide processor, communication and screen controller chips, have flourished this year and still look forward to strong performance next year. The applications now made possible by 5G in a commercial setting as well for consumers have re-energised this business corridor for IT consultant Tech Mahindra, which derives over 40% of revenues from this sector. COVID disruption may have slowed revenue from existing contracts during 2020 (though work restarted in 2021), but new contract wins mounted up over the period and continue to do so. This has been reflected in the 100% increase in dividend received in 2020 and 50% increase in 2021.

Individual Stock Performance

The chart below shows the total return for each position in the portfolio for the period it was held in 2021. At the bottom we note the return for China Mobile until the point at which it was sold, and the return for China Overseas Land & Investment from the time we bought it until the year end. If we combine the returns from the switch into a single number, it becomes our 11th best performing position.

The top 10 best performers by sector consist of three Technology names, three Financials (two banks and one insurer), two Health Care companies, one in Consumer Staples and one Consumer Discretionary name. On an aggregate sector basis (see the Sector Returns chart in the market review section), Financials and Technology were two areas that outperformed the benchmark but Consumer Discretionary, Staples and Health Care most definitely did not.

Individual stock performance in 2021 (total return in GBP)



Total returns in GBP in 2021. Data as of 31st December 2021. Source: Bloomberg.

We discussed some of the strongest and weakest stocks earlier in this commentary and so to give a little more colour we will touch briefly upon Sonic Healthcare, Metcash and Aflac amongst the top ten performers and on Hanon Systems, Largan Precision and Catcher Technology which were amongst the weakest over the year.

Sonic Healthcare is an Australian medical diagnostics business with operations in Australia, Europe, the UK and the US. The business has grown steadily through acquisition and has achieved significant scale. COVID testing related revenue has given the business a big boost. 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.

Metcash is a food distributor for smaller independent retailers in Australia. The company has recently added hardware to its grocery products. Results reported in 2021 beating market expectations comprehensively. The dividend was also 16% higher than forecast. In the second half of the year, continuing the rebound, food sales were flat, liquor sales up 6.6% and hardware sales up 17.9%. Underlying operating earnings rose 13.9% to $231m and within that hardware jumped 53% to $99m. Since the end of the period the trend has continued with Food, Liquor and hardware sales up 2%, 7% and 20% respectively.

Aflac is a US-listed health insurance business with 70% of its revenue coming from Japan. The company has continued to report strong margins (pre-tax margins in the US were 25%, 6% higher than 2019, and were 5% higher in Japan at 26%) and strong policy retention. These margins were well above market expectations and the company has increased the dividend it will pay in 2022 by 21% following an 18% increase in 2021 over 2020. The longer-term concern for future earnings growth which we are watching is weaker new business growth, which is still below pre-pandemic levels.

Hanon Systems was the second weakest performer over the years as revenues were depressed because of current manufacturing disruptions for its customers caused by the shortage of semiconductor chips. The company also faced headwinds in 2021 from rising freight and raw materials costs. Hanon makes cooling systems to improve fuel efficiency for both conventional and new energy vehicles. It counts Hyundai and Ford amongst its customers. Despite 2021's issues, the longer-term story continues to improve. The company upgraded its unit sales forecast to 2025 into the new energy vehicle channel by 35% to 6 million units. New business wins in 2021 also appear to have come in ahead of target.

Largan Precision is a maker of high-quality and high-priced camera lenses and modules for smartphones. The target customer groups have been more focussed on 5G-related upgrades and so have concentrated on processors and screens rather than cameras and thus sales and sales price momentum has slowed. While conditions remain sluggish the company has increased its dividend and has undertaken share buybacks. The share price will likely be very sensitive to new orders from Chinese customers as well as to any new of camera upgrades by Apple.

Catcher Technology sold its smartphone casing business last year and it will take time for new business channels in automotive, healthcare and 5G consumer device thermal solutions to contribute meaningfully. The main contributions now come from Notebook and Tablet demand, which remains strong for now, although component shortages have been restricting supply, which resulted in slower sales. We are looking for an improvement in operating profit in 2022 driven by higher shipments and an improving product mix which has already delivered margin improvement.

Changes to the Portfolio

The table below shows the number of portfolio changes we have made each year through the life of the Fund which comes to an average of just over three a year. There was a more significant re-positioning of the Fund in 2019 and 2020, over and above the average of three changes per year. These were made according to our view that, unrelated to COVID, market conditions were changing in a way that would make higher share valuations much harder to come by unless well supported by earnings and dividend growth. This weakened the case for those companies that fall into the 'deep value' category where the valuation is low, the dividend yield is high but with little or no growth on offer. The process of repositioning was interrupted by extreme market volatility in early 2020 but nevertheless was completed that year and set us up for the year we have just had.

	2014	2015	2016	2017	2018	2019	2020	2021
Buys	2	3	3	1	2	6	8	1
Sells	2	4	3	1	2	6	8*	1
Total Holdings	37	36	36	36	36	36	37	36

* Sale of one position not fully completed by year end. Source: Guinness Global Investors

There was one change to the portfolio in the first half. We sold China Mobile and replaced it with China Overseas Land & Investment (COLI). Both stocks offer a similar yield but COLI's returns on capital, earnings growth and dividend growth profile are superior to those of China Mobile, in our opinion. COLI also trades at a significantly lower valuation to China Mobile. Over the past five years, COLI has grown its dividend at an average annual rate of 14.1%, paying out 25% of its earnings (25% pay-out ratio) compared China Mobile, whose dividend has grown 4% over the same period with a 43% pay-out ratio.

The Chinese real estate developer sector is not a popular area hence the low and, in our opinion, attractive valuation. COLI's circumstances are significantly different to those of the privately owned companies; total debt is 67% of equity and annual interest is over six times covered by operating earnings (after capital expenditure). Comparing it against those three red lines discussed earlier:

1. Liabilities to Total assets are 60% (Threshold: 70%)
2. Debt less Cash to Equity is 33% (Threshold: 100%)
3. Short term debt to Cash is 39% (Threshold: 100%)

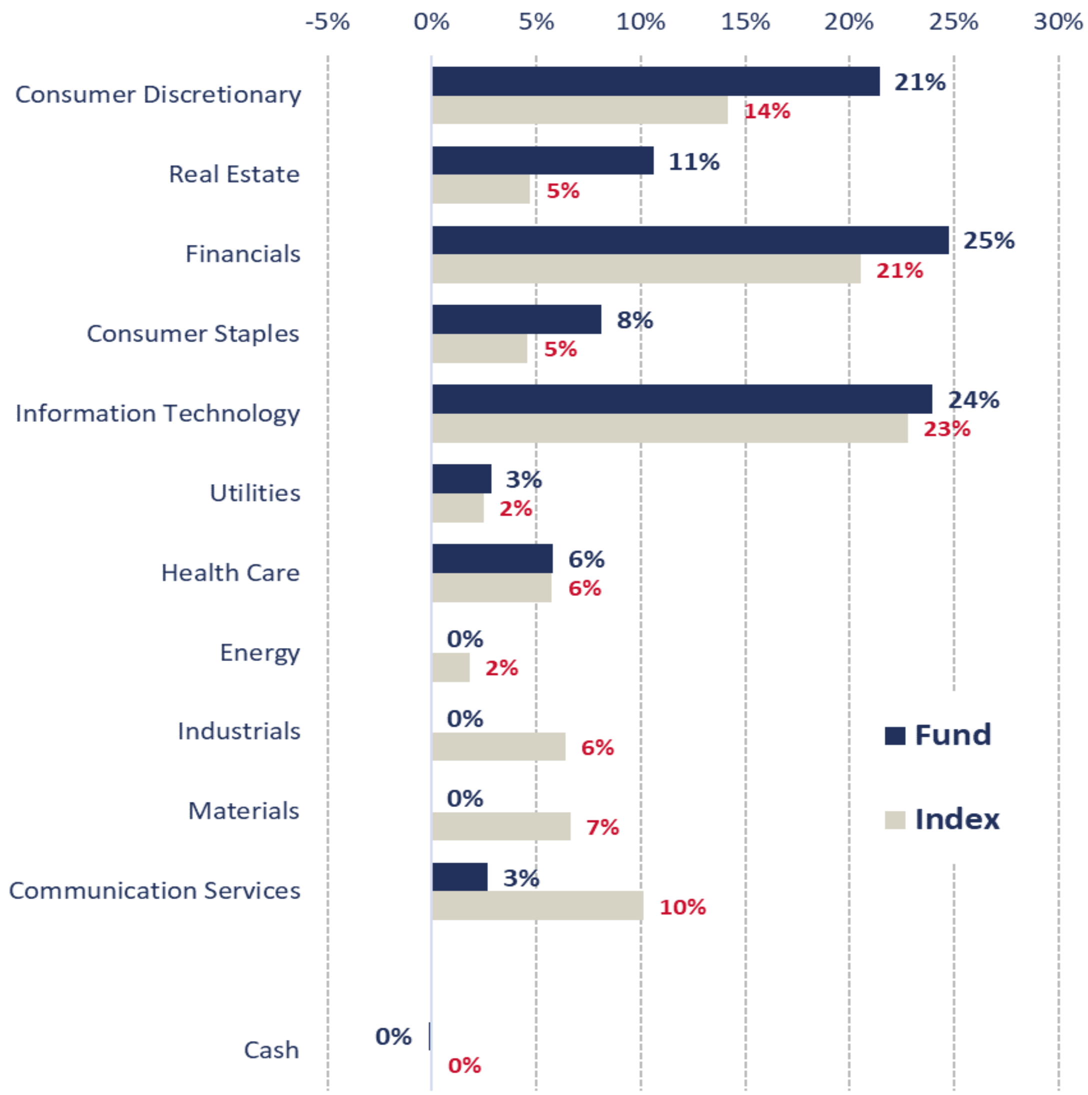
The company is rated as an investment grade debt issuer at BBB+ by Standard & Poor's, Baa1 by Moody's and A- by Fitch. We see this company as having a solid financial platform and with many of its peers now focused on managing liquidity, COLI is in a good position to acquire land for future development at lower cost in the absence of competitive bidding. We are looking for average earnings growth of 7% p.a. over the next couple of years, a yield of 5% and dividend growth in line with earnings. The valuation gap versus its 5-year average has closed this year, but is still 18% below, which we think could narrow further as sector tensions ease.

Portfolio Positioning

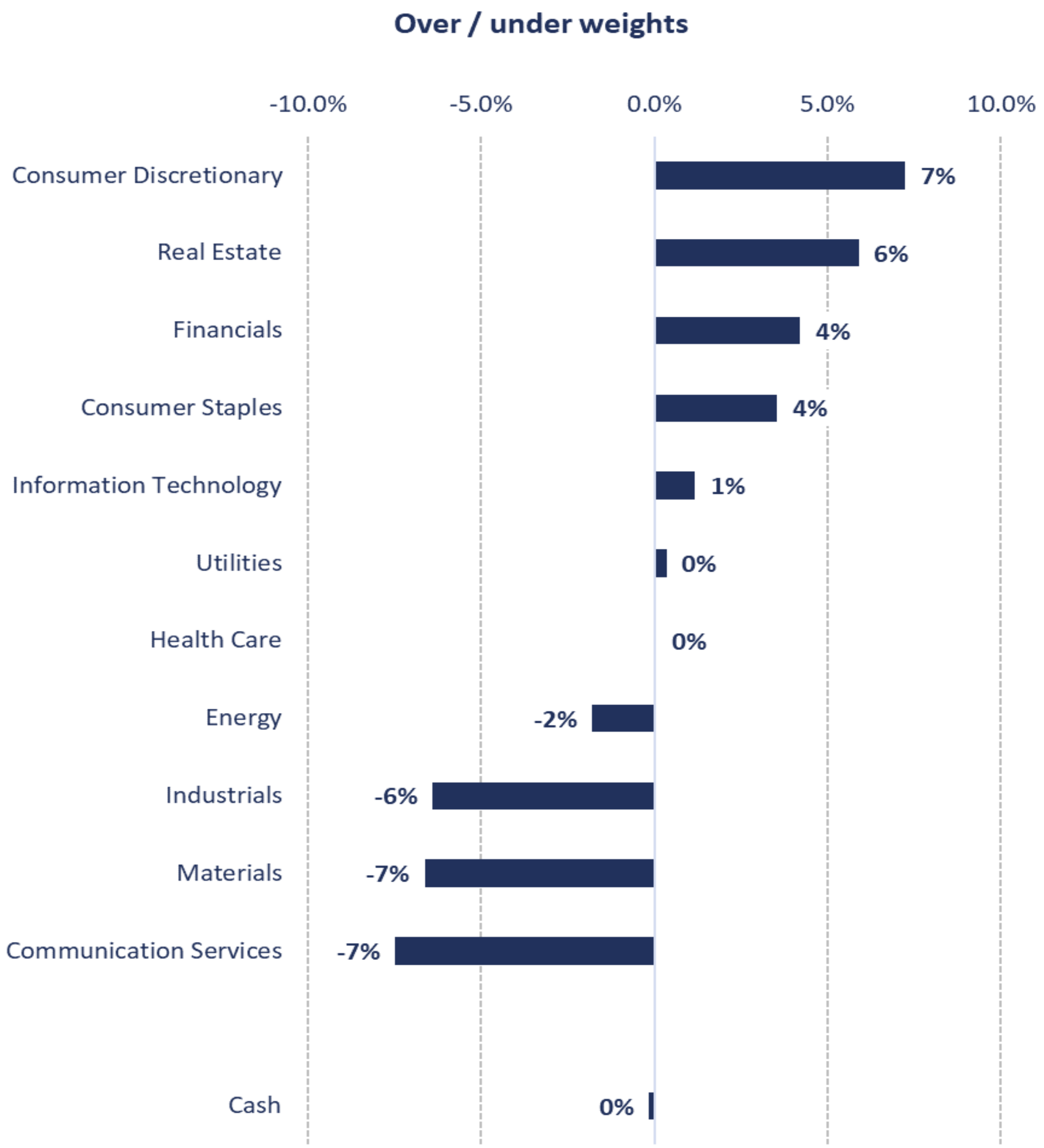
The portfolio maintains a diversified exposure across sectors and geographies.

- Consumer Discretionary exposure, for example, is made up of clothing manufacturers and retailers, a car parts and equipment maker, electronics retailing, home furnishings and household appliances in Australia, China, Korea and Taiwan.
- Financials exposure is made up of commercial banks, diversified financial groups, life insurance and reinsurance in China, Hong Kong, Korea, Singapore, Thailand and Japan (via US-listed Aflac).
- The Technology segment is more concentrated geographically, with six holdings listed in Taiwan, one in India and one in the US. However, they serve a global market and they are divided between semiconductor makers or designers, electronic components makers, hardware, IT consulting and manufacturing services. TSMC, Tech Mahindra and Elite Material Co derive revenue from both consumer electronics and IT infrastructure; the rest are more exposed to consumer electronics.
- Real Estate comprises four positions, three of which are Real Estate Investment Trusts (REITs) listed in Hong Kong and Singapore. These offer a steady income stream from rental income from industrial, commercial and retail properties in Australia, China, Hong Kong, Singapore, UK and US.

Fund allocation vs MSCI AC Pacific ex Japan Index

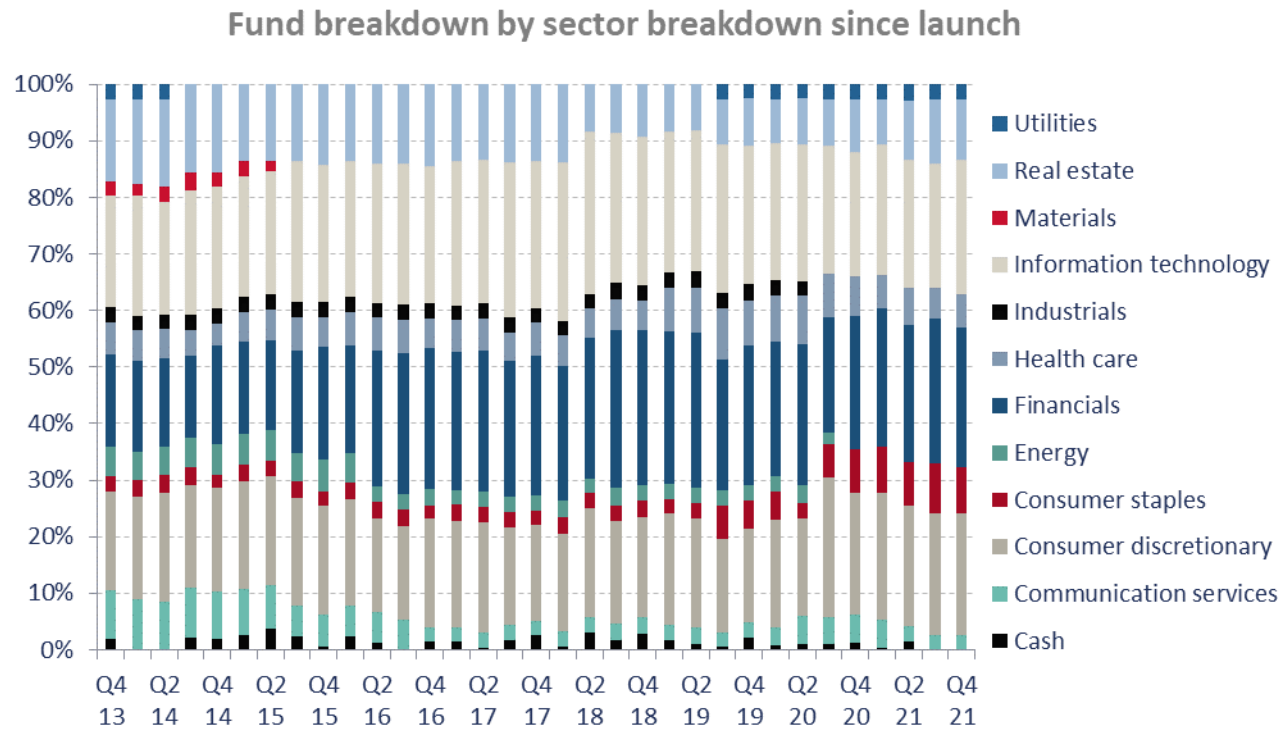


Asian Equity Income Fund



Source: Guinness Global Investors, Bloomberg. Data as of 31st December 2021

The chart below shows how the sector exposure of the Fund has evolved since its launch in 2013.

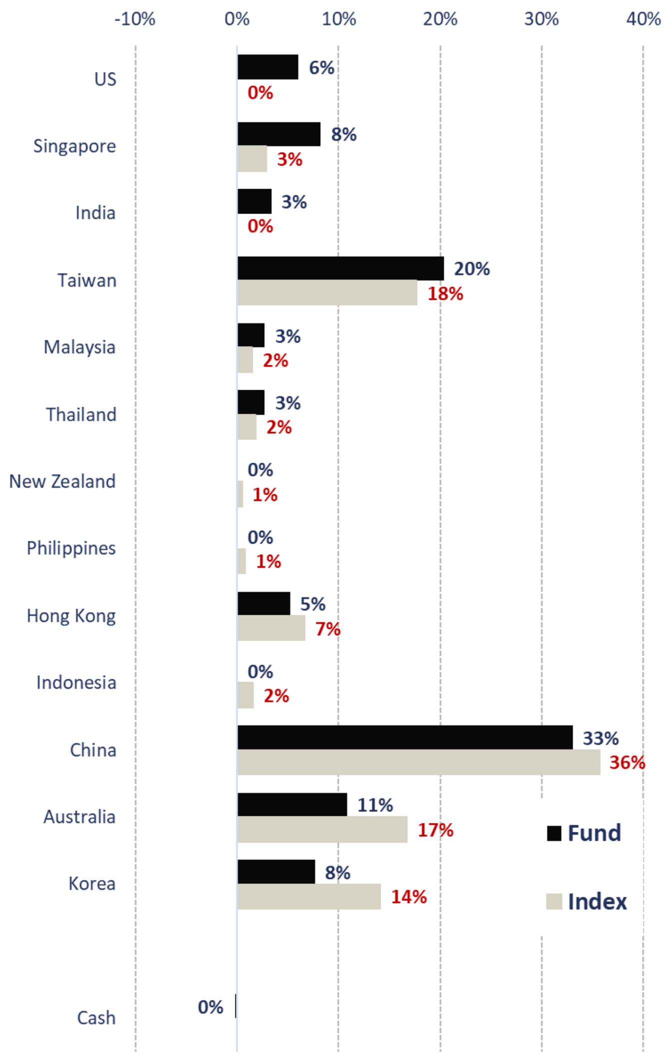


Source: Guinness Global Investors. Data as of 31st December 2021

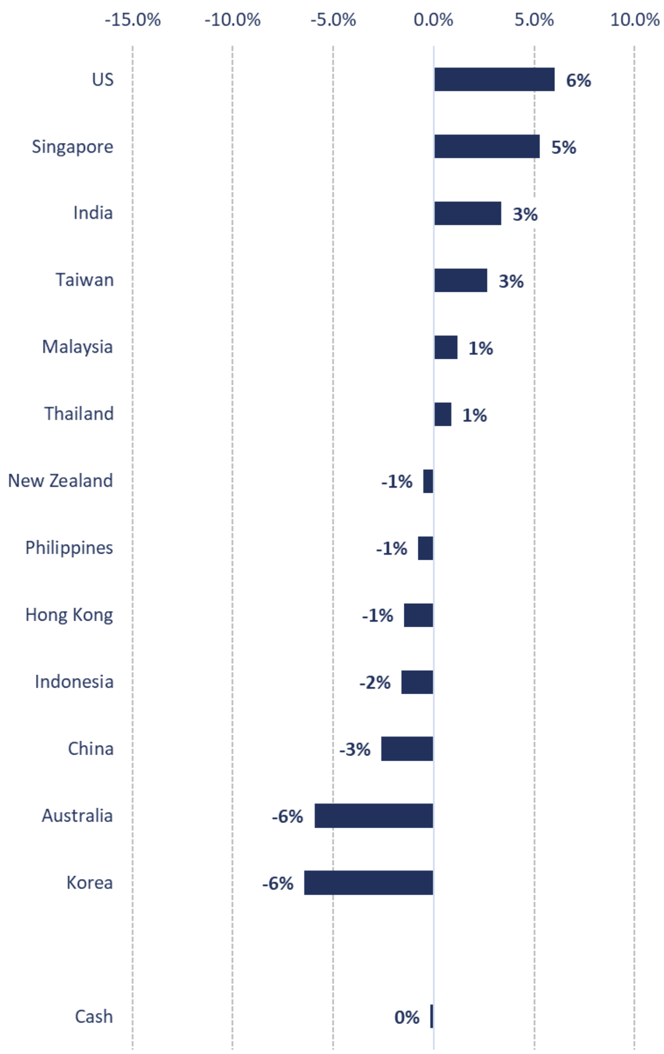
The Fund's geographic exposure includes two countries, India and the US, which are not included in the Fund's benchmark, the MSCI AC Pacific ex Japan Index. The Fund is not run by reference to its benchmark and so the weighting to these areas is unaffected by the index construction. The Fund's requirement is that businesses must be listed and traded in the Asia Pacific region or must have at least 50% of their assets or derive at least 50% of their revenues from within the region. Our two US-listed positions are the insurance company Aflac and semiconductor designer Qualcomm, which derive over half of their revenues from Japan and China respectively.

Asian Equity Income Fund

Fund allocation vs MSCI AC Pacific ex Japan Index

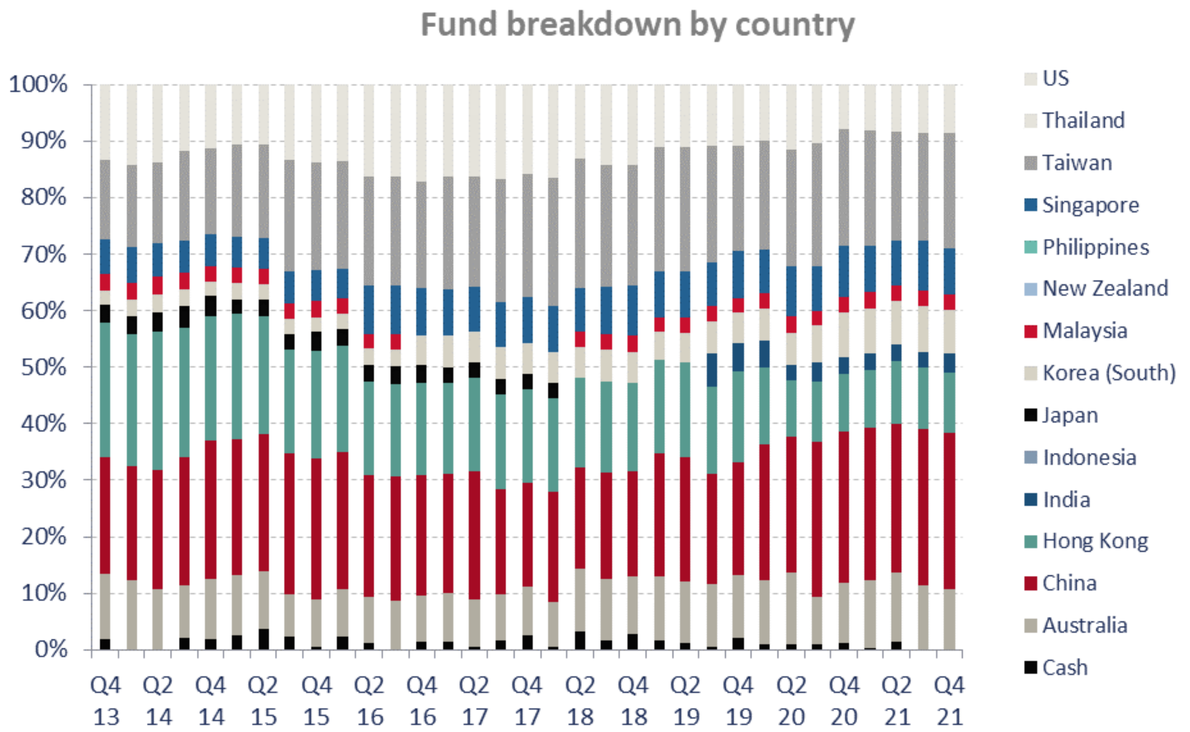


Over / under weights



Source: Guinness Global Investors, Bloomberg. Data as of 31st December 2021

The chart below shows how the country exposure of the Fund has changed since its launch in 2013.



Source: Guinness Global Investors. Data as of 31st December 2021

Outlook

We have a very positive outlook for this strategy based on the three elements of the total shareholder return as described in the table below.

	EPS % Chg			Valuation		Yield – 2021 Historic	
	2018-20	2021-23	Fund% p.a. Premium/ Discount	FY1 PER	Fund% Premium/ Discount	Y Share class USD	Fund% Premium/ Discount
Fund	-1.8%	9.5%		10.9		3.7%	
MSCI AC Pacific ex Japan	-19.9%	8.1%	1.3%	13.8	-21%	2.4%	52%
Developed Asia	-43.6%	11.4%	-1.8%	17.0	-36%	3.7%	1%
Emerging Asia	-10.3%	7.5%	1.8%	14.1	-23%	1.9%	99%
US	-9.8%	11.4%	-1.7%	21.2	-49%	1.3%	190%
Europe	-26.9%	9.3%	0.1%	16.3	-33%	2.3%	61%
MSCI World (Developed)	-17.5%	10.2%	-0.7%	19.2	-43%	1.7%	120%

Developed Asia as measured by MSCI Pacific ex Japan Index, Emerging Asia by MSCI EM Asia Index, US by S&P 500 Index and Europe ex UK by MSCI Europe ex UK Index. Figures in US dollars as of 31 December 2021. Historic Fund yield is after deduction of withholding taxes, Index yields are before the deduction of taxes. Sources: Guinness Global Investors, Bloomberg.

Earnings

We focus on quality companies, defined as those that have achieved and sustained a higher return on capital than their cost of capital, in the expectation that these returns will persist. We are therefore pleased to note that in the exceptionally challenging period 2018-20 the portfolio's earnings proved to be significantly more resilient than those of the Asian and developed world market indices. From this position we look with confidence at market consensus estimated earnings growth of 9.5% per annum over the next two years, which is not far away from that expected in developed markets, and which although a bit behind developed Asia (Australia, Hong Kong, New Zealand and Singapore) is ahead of Asia Pacific in aggregate.

Valuation

Where this starts to become even more interesting is when we look at valuations. The earnings for the portfolio which were so much more robust and which are expected to grow at a similar or slightly slower rate over the next two years than the indices', are valued at a 20% discount to Asia and at a huge 43% to developed markets as measured by the MSCI World Index. We have already noted that Asia Pacific is the only region trading at a discount to its long-run average, and with the portfolio's higher-quality earnings so deeply discounted compared to the region's level, we think there is an opportunity here where we could see some of that value realised.

Dividend

The importance of the dividend to long-term shareholder returns is well recognised. In a more uncertain period such as this, the dividend is tangible evidence of profits delivered in cash, rather than accounting terms. The fund's historic yield of 3.7% (Class Y, in USD) is at a substantial premium to all markets in the table excepting developed Asia, which is dominated by Australia, whose dividends are the product of a very high pay-out ratio and are not expected to grow much.

At the year end, we can show that the portfolio continues to deliver on all four of the pillars on which the Fund is built. Relative to the MSCI AC Pacific ex Japan Index benchmark these are illustrated below.

		Fund	MSCI AC Pacific ex Japan Index
Quality	ROE	22%	12%
	Weighted average net debt / equity	4%	35%
Value	PE (2022e)	10.9	13.8
	FCF Yield (LTM)	5.6%	6.9%
Dividend	Dividend Yield (LTM)	3.7% (net)	2.4% (gross)
	Weighted average pay-out ratio	49%	39%
Conviction	Number of stocks	36	1,176
	Active share	94%	-

Portfolio metrics versus index as of 31st December 2021. Source: Guinness Global Investors, Bloomberg.

We think the combination of robust earnings quality, a positive earnings outlook, low valuation and sizeable dividend yield is the right one for these times. We think we have the right portfolio to deliver it.

Investment team

Edmund Harriss

Mark Hammonds

Sharukh Malik

Portfolio

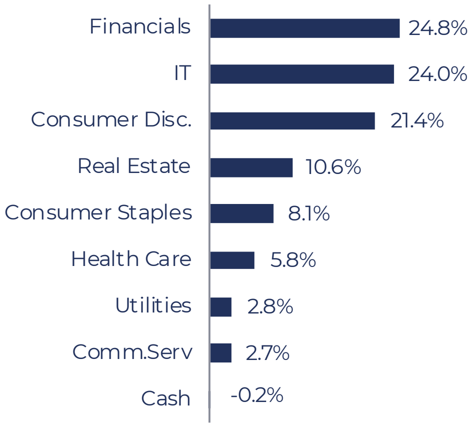
PORTFOLIO **31/12/2021**

Fund top 10 holdings

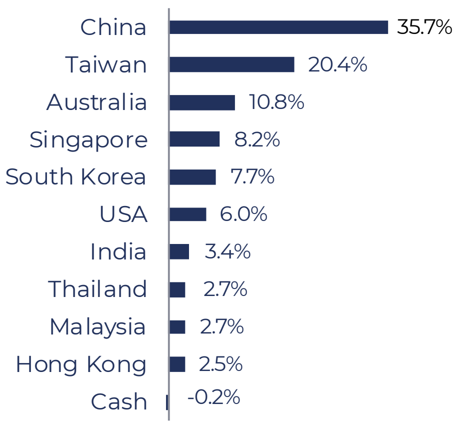
Tech Mahindra	3.4%
Elite Material	3.4%
Suofeiya Home Collection	3.2%
Novatek Microelectronics	3.2%
Aflac	3.1%
Largan Precision	2.9%
Qualcomm	2.9%
China Medical System	2.9%
Sonic Healthcare	2.9%
DBS Group Holdings	2.8%

% of Fund in top 10	30.8%
Total number of stocks in Fund	36

Sector analysis



Geographic allocation



Performance

Past performance is not a guide to future returns

Discrete years % total return (GB	Dec '21	Dec '20	Dec '19	Dec '18	Dec '17	Dec '16	Dec '15	Dec '14
Fund (Y class, 0.89% OCF)	12.2	4.8	14.4	-10.3	24.7	28.2	1.2	17.6
MSCI AC Pacific ex Japan Index	-5.0	19.2	15.7	-9.2	25.1	28.5	-4.1	5.1
IA Asia Pacific ex Japan	1.5	20.0	15.8	-9.8	25.3	25.6	-3.4	9.5

Cumulative % total return (GBP)	1 M	YTD	1 Year	3 Yrs	5 Yrs	Launch
Fund (Y class, 0.89% OCF)	3.5	12.2	12.2	34.5	50.6	130.7
MSCI AC Pacific ex Japan Index	-0.7	-5.0	-5.0	31.0	48.8	98.5
IA Asia Pacific ex Japan	0.3	1.5	1.5	41.0	59.4	114.2

Annualised % total return from launch (GBP)

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

31/12/2021	Index	Sector	Fund
Alpha	0	1.81	3.26
Beta	1	0.89	0.85
Information ratio	0	0.27	0.31
Maximum drawdown	-26.36	-24.54	-24.84
R squared	1	0.95	0.83
Sharpe ratio	0.35	0.46	0.52
Tracking error	0	3.50	6.36
Volatility	15.32	14.02	14.37

Fund returns are for share classes with a current Ongoing Charges Figure (OCF) stated above; returns for share classes with a different OCF will vary accordingly. Source: FE fundinfo bid to bid, total return (0.89% OCF). Fund launch date: 19.12.2013.

Important information

Issued by Guinness Global investors, a trading name of Guinness Asset Management Limited, which is 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 at guinnessgi.com/literature. 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.guinnessgi.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