Guinness Asian Equity Income Fund

Investment Commentary - March 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.

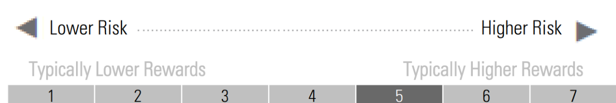
About the Fund

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

28/02/2022

Fund	Guinness Asian Equity Income (Y)
Index	MSCI AC Pacific ex Japan Index
Sector	IA Asia Pacific ex Japan

	1 Yr	3 Yrs	5 Yrs	Launch
Fund	5.4	23.0	35.9	124.7
Index	-11.4	18.3	31.4	90.3
Sector	-6.3	28.1	41.3	105.2

Annualised % total return from launch (GBP)

Fund	10.4%
Index	8.2%
Sector	9.2%

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.

Summary

Asian markets, as measured by the Fund's benchmark, the MSCI AC Pacific ex Japan Net Return Index, were -0.4% lower in GBP terms in February. Over the first two months of the year the index is down -4.0% compared the MSCI World Index, which is down -6.6%.

Stock performance in the Fund was fairly evenly split. 16 out of 36 stocks outperformed and 20 stocks underperformed.

In February, stock markets in Australia, New Zealand and the ASEAN markets of Indonesia, Malaysia and Thailand rose 6%. China and India fell around -4% whilst Hong Kong and Taiwan were down 2%.

On a sector basis, Consumer staples, Energy, Industrials and Materials rose 4% to 8%; Communication Services and Consumer Discretionary fell -5% to -6%.

The Australian and New Zealand dollars strengthened most against the US dollar, rising 3% during the month bringing them back to their levels at the start of the year. The Chinese Yuan, however rose 1% to its highest level against the dollar in four years.

Commodity prices have moved sharply higher with the biggest moves in oil, gas and wheat prices but also evident in copper and iron ore. Movements in other agricultural commodities have been less pronounced or have not moved (lumber, cotton, palm oil, pork, rice).

Shipping costs for dry bulk and containers remains as they were at the end of January – dry bulk is well below peak levels while container rates are still well above pre-pandemic levels.

Russia invaded Ukraine which triggered the imposition of sweeping (and unprecedented) sanctions against Russian banks, including the Central Bank of the Russian Federation.

Geopolitical dynamics and calculations have been fundamentally altered in Western capitals.

Diplomatic damage between the US and Europe of recent years has been repaired, unity within the EU has tightened significantly and the NATO alliance has been rejuvenated.

Eyes are also on China – will they see this as an opportunity to move against Taiwan and risk similar pariah status, or will they see an opportunity to play a role as international powerbroker and mediator (a role from which they have hitherto shied away)?

The Federal Reserve has reaffirmed its commitment to anti-inflation monetary policy and will press ahead in March, but a 0.5% increase is no longer expected.

European inflation pressures were expected to push the European Central Bank to raise interest rates, a move now likely to be postponed if consumer confidence weakens, as is probable. This is also likely to put downward pressure on the euro versus the dollar in the near term.

Asian countries must now consider slower world growth, weaker European demand for goods and higher costs of energy and materials. The impact is not crushing, but the balance companies must strike between product pricing and cost-price pass-through on the one hand and cost control and production efficiency on the other becomes even more critical.

February in review

Russia's invasion of Ukraine has raised the question of whether China will see this as an opportunity to take over Taiwan. Only a few months ago, the idea of an invasion in Ukraine would have been dismissed as almost inconceivable and therefore we cannot rule out a similar move by China. However, we think that whilst re-unification with Taiwan remains a strategic priority for Xi Jinping, it is not *the* priority. Indeed, there are good reasons to believe that China has been taken by surprise, not least the absence of any plan to evacuate its citizens ahead of time.

China's goal over the last forty years has been to restore the country's economic strength and to maintain domestic stability through a steady improvement in the standard of living. This process has increased China's engagement with the world's trade and financial system. China's foreign exchange reserves are over $3 trillion while the value of merchandise trade last year exceeded $6 trillion. Its economy is estimated to reached $18 trillion in nominal terms in 2021 (CNY 114.4 trillion according to China's National Bureau of Statistics) making it the world's second largest in aggregate, but on a per capita basis, at $13,000 it is still a laggard.

This is something that China is trying to rectify by developing key industries which rely less on labour and more on value-add in which it can enjoy competitive advantage, from which it can develop a higher-income consumer economy. As part of this programme there have been efforts to open up to foreign investors, develop more localised centres of production to secure supply chains (which came in their own during COVID) and create better international access to the capital markets through the Stock and Bond Connect schemes. The currency has been operated as a manged float since 2011, and on a path toward internationalisation the Yuan forms part of the International Monetary Fund's Special Drawing Rights. To become a reserve currency, that is one that central banks use as part of their foreign exchange reserves, the Yuan needs to be stable, liquid, and financial assets denominated in that currency (i.e. government bonds) need to be seen as a store of value.

The decision by Vladimir Putin has turned Russia into an international pariah in less than a week. The US has demonstrated international leadership and repaired much of the damage to its European relations in the Trump years; the EU has adopted a unified stance and Germany has reversed the 75-year post-war consensus on defence; the NATO alliance has renewed relevance and has been rejuvenated. Financial sanctions unprecedented in speed and scope have closed off access to most (but not all) avenues to external funding, and by including the central bank, have denied Russia access to over $400 billion of its $640 billion foreign exchange reserves. The domestic currency has collapsed; there is no access for Russian bond issuers, government or

private, to foreign funding and if they cannot (or will not) pay interest or principal those bonds will be next to worthless. This, then, is a cautionary tale for China, whose economy is built around an increasing breadth of engagement.

We think, therefore, that China will prioritise mitigation of the economic shock in the immediate term but there will be longer-term considerations too. In the short term, China has just announced an economic growth target of 5.5% in 2022. There are some who will point out that this is the lowest rate since 1990; but note that in 1990 China's GDP was one 50th its current size in real terms and its GDP per capital was $346 (one 37th the size, given the 22% growth in population between then and now). The important things to take away from this are, first, this is a number more consistent with an economy at this stage of development and size; second, it is above the current economic growth run rate and so implies more aggressive monetary easing and support to achieve it. The current economic challenges facing China centre on the slowing property market and higher materials prices. The economic shock from the Russian invasion for China is indirect, transmitted through higher energy and commodity prices and by the potential for weaker demand for exports of manufactured goods. China sent 21% of its exports to Europe last year, which is likely to be the most affected area. Russia accounted for just 2% of China's exports in 2021. Imports from Russia (gas, oil, wheat primarily) were 2.9% of China's total in 2021, but with a value of $78 billion take on geopolitical significance as international sanctions tighten.

Over the longer term, China's geopolitical calculations must now factor in a set of western democracies with a more unified sense of purpose. China is also faced with an ally who seems, despite recent apparent warmth, to be pursuing its own very different agenda. In terms of the West, China has thrived in an era of division and a diminished ability of the US and Europe to respond coherently. The speed and nature of the sanctions imposed on Russia will likely lead to changes in the way and where China holds its foreign reserves. We do not expect to see selling of US Treasuries, but they may well be held in places where they are unlikely to be frozen. The exclusion of Russian banks from the SWIFT (Society for Worldwide Interbank Financial Telecommunication) messaging system may push China to develop its own Cross-Border Interbank Payment System (CIPS). The US threat to deny access to the US dollar market, a stick with which it enforces compliance with its sanction policies (against Iran, for example) and with which Chinese banks comply, may also cause China to accelerate the internationalisation of the Yuan. But today, the dollar still rules supreme, with over 80% of cross-border transactions dollar denominated and China's Yuan and CIPS system nowhere close to being an alternative.

China also has a Russia problem. As discussed earlier, despite the warm words following Putin's recent meeting with Xi at the Winter Olympics, it is probable that China was not told of the invasion. Furthermore, relations between the two nations seem to be built not so much on mutual trust but on a mutual mistrust of the US. China's belt and road initiative consists of both sea and land routes and is designed not only to open up trade routes but also to provide access to the resource-rich nations of central Asia. The land routes considered must pass through central Asia into Kyrgyzstan and then either south through Uzbekistan, Tajikistan and Turkmenistan, through Turkey and then into Europe or turn north though Kazakhstan and then though Poland into Europe. Ukraine lies in the middle of the proposed entry points into Europe. Furthermore, Russia has been taking steps to pull in Central Asia closer to Moscow's orbit. Pressure has been put on Kazakhstan to reorient back to Russia while Azerbaijan, in a little noticed move two days before the invasion, signed a bilateral military agreement with Russia something they have resisted doing for years.

In sum, we think that China's immediate focus remains on the maintenance of domestic stability which is linked inextricably to domestic economic performance.

Markets in review

In February, Asia as measured by the Fund's benchmark held up better (falling -0.4% in GBP terms) than developed markets, which fell -2.2%. China, however, was weaker, with the MSCI China Net Total Return Index down -3.6%. Consumer Staples, Energy and Materials were the best-performing sectors while Communication Services and Consumer Discretionary were the weakest. Among the benchmark heavyweights, Alibaba, Hong Kong Exchanges and Clearing, Meituan and Tencent have dragged down performance. Australian banks and materials, and Samsung Electronics, were the better performers in February.

In the 12 days since the invasion, to the time of writing (8th March 2022), the Asian region has dropped -4%, with China and Singapore the weakest down -8% and -9% respectively and Australia/ New Zealand the strongest up +4.5% and +6% respectively. Korea and Taiwan have fallen -3% and -5%.

Portfolio changes

There have been no changes to the portfolio in the past month.

Stock commentary

The weakest stocks during this period were Shenzhou International (textiles), China Resources Gas and Ping An Insurance. Only China Resources Gas's share price could be said to have been directly affected by Ukraine, with investors concerned about the ability of the company to pass on higher gas prices to its industrial and residential consumers (48% and 18% of revenue respectively). The company is due to report 2021 results shortly and we shall hear more. Shenzhou fell following a profit warning following the COVID-related disruption to production in Vietnam last year. Ping An Insurance has given up its 2022 gains but is only marginally lower for the year. Renewed concerns about the property sector are the primary driver but as discussed earlier, we expect to see further easing.

The best performers during this post-invasion period have been Tech Mahindra, JB Hi-Fi and China Overseas Land & Investment. Tech Mahindra sold off following its strong run last year on weaker results that indicated higher cost pressures. The stock has rebounded 10% in GBP terms in recent days but is still down 18% year-to-date. JB Hi Fi continues to produce good performance and is up 10% in the year to date while our best performer remains China Overseas Land, which is now up 36% in the year to date in GBP terms.

Public Bank in Malaysia reported results that were ahead of expectations and maintained its 12% long-term dividend growth trajectory. Management is looking for loan growth of 4.5-5% in 2022 and a stable net interest margin which would expand with and interest rate increase. Operating costs are expected to be approximately 35% of income and credit costs are expected to decline further.

NetEase reported fourth quarter revenue and profits that were ahead of forecasts with PC game revenue growth up 49% year-on-year. Deferred revenues were 11% lower than the last quarter, which may raise some concerns about the outlook in the next couple of quarters. Nevertheless, the company has a strong pipeline of new products for global launch in coming months. The quarterly dividend was 80% higher than the prior quarter.

Elite Material remains a strong story. Its recent results showed gross margins in line with forecasts on stable pricing and input costs. The infrastructure segment (servers and switches) reported 60% revenue growth, far above that for handheld devices and auto, on rising market share. Margins in this segment are also set to increase on upgraded specification. The company raised its dividend by 43%.

DBS reported results for the fourth quarter that concluded a year described by the CEO as the best performance in a decade. The quarterly dividend was raised by 9%, which the bank said would have been higher were it not for additional capital requirements imposed by the acquisition of Citi's Taiwan retail business. The bank is well positioned, with a substantial and liquid deposit franchise, to see margin expansion on higher interest rates.

Novatek Microelectronics reported strong results for 2021, as expected and the dividend is forecast to growth 28% on last year. The market remains concerns about the sustainability of selling prices and the gross margin trend. Nevertheless, revenues for the first two months of this year are 43% higher than the same period last year.

Ascendas REIT reported a good set of results with the full-year dividend up 3.9% over 2020. Property occupancy was 93.2% and rent increases were up 4.5%. The company spent S$2.1 billion (US$ 1.54 billion) on acquisitions in sectors including technology, life sciences, data centres and logistics.

Aflac reported results at the beginning of the month produced another set of good results with good margins and returns on the investment portfolio. The market expects to see margins remaining strong and a proactive share buyback programme should help maintain high levels of return. The company has a strong capital position, lower risk to liability profile and a conservative investment portfolio that positions it defensively. The one criticism is

lower new sales in Japan, up 1%, and US sales which rose 20% but off a low base for comparison. Management remains very positive, however, and in November announced a 21% increase to its quarterly dividend this year.

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Outlook

The outlook has been clouded significantly by Russia's actions in Ukraine. Considering this solely from an investment perspective, we need to be aware of the impact on rising energy and input costs and weaker consumer confidence. The US Federal Reserve has indicated that it will continue to raise interest rates to combat inflation, although the market has reversed its expectation of a 0.5% increase. Inflation continues to creep up in the region. Korea (3.7% inflation) has decided to keep interest rates unchanged, while Singapore (4% inflation) continues to manage the pressure via its exchange rate. Sharper rises are now to be expected from higher energy and food prices. Thailand (5.38% inflation) is the latest to have reported an inflation surge. Against this backdrop we continue to focus on the fundamental characteristics of strong management, operation efficiency, pricing power and cash flow generation.

Investment team

Edmund Harriss

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Asian Equity Income Fund

Portfolio

Fund top 10 holdings

Holding	%
Public Bank Bhd	3.4%
China Overseas Land	3.3%
Tisco Financial Foreign	3.2%
JB Hi-fi	3.1%
Aflac	3.1%
China Medical System	3.1%
Elite Material	3.0%
Suofeiya Home Collection	3.0%
Ping An Insurance	2.9%
Novatek Microelectronics	2.8%
% of Fund in top 10	30.9%
Total number of stocks	36

Sector analysis

Sector	%
Financials	29.2%
Cons Disc	21.7%
IT	21.6%
Real Estate	11.4%
Health Care	5.3%
Consumer Staples	5.1%
Comm Services	2.7%
Utilities	2.6%
Cash	0.4%

Geographic allocation

Country	%
China	38.8%
Taiwan	18.9%
Australia	10.4%
Singapore	8.2%
USA	5.8%
South Korea	5.6%
Malaysia	3.4%
Thailand	3.2%
India	2.8%
Hong Kong	2.5%
Cash	0.4%

Performance

Past performance does not predict future returns **28/02/2022**

Discrete 12m % total return (GBP)	**Feb '22**	**Feb '21**	**Feb '20**	**Feb '19**	**Feb '18**	**Feb'17**	**Feb'16**	**Feb'15**
Fund (Y class, 0.89% OCF)	5.4	19.0	-1.9	-3.8	14.9	38.6	-2.2	24.7
MSCI AC Pacific ex Japan Index	-11.4	28.1	4.2	-3.8	15.5	43.4	-11.9	15.8
IA Asia Pacific ex Japan	-6.3	31.6	3.8	-4.1	15.1	38.9	-10.0	16.5

Cumulative % total return (GBP)	**1 Year**	**3 Yrs**	**5 Yrs**	**Launch**
Fund (Y class, 0.89% OCF)	5.4	23.0	35.9	124.7
MSCI AC Pacific ex Japan Index	-11.4	18.3	31.4	90.3
IA Asia Pacific ex Japan	-6.3	28.1	41.3	105.2

Annualised % total return from launch (GBP)

Fund (Y class, 0.89% OCF)	**10.4%**
MSCI AC Pacific ex Japan Index	**8.2%**
IA Asia Pacific ex Japan	**9.2%**

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

28/02/2022	**Index**	**Sector**	**Fund**
Alpha	0	1.74	3.43
Beta	1	0.89	0.85
Information ratio	0	0.27	0.34
Maximum drawdown	-26.36	-24.54	-24.84
R squared	1	0.95	0.83
Sharpe ratio	0.30	0.40	0.48
Tracking error	0	3.48	6.39
Volatility	15.33	14.01	14.32

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