Guinness Asian Equity Income Fund

Investment Commentary - May 2022

This is a marketing communication. Please refer to the prospectus and KIID for the Fund before making any final investment decisions. The value of an investment and the income from it can fall as well as rise as a result of market and currency movement; you may not get back the amount originally invested. Past performance does not predict future returns.

ABOUT THE FUND

Launch date	19.12.2013
Benchmark	MSCI AC Pacific ex Japan
Sector	IA Asia Pacific Excluding Japan
Team	Edmund Harriss (Co-manager) Mark Hammonds (Co-manager) Sharukh Malik

Aim

The Guinness Asian Equity Income Fund is designed to provide investors with exposure to high quality dividend-paying companies in the Asia Pacific region. The Fund aims to provide long-term capital appreciation and a source of income that has the potential to grow over time. The Fund is actively managed and uses the MSCI AC Pacific ex Japan index as a comparator benchmark only.

RISK

Lower Risk						Higher Risk
1	2	3	4	5	**6**	7

Typically lower rewards — Typically higher rewards

The risk and reward indicator shows where the Fund ranks in terms of its potential risk and return. The Fund has been classed as 6 because its volatility has been measured as above average to high. Historic data may not be a reliable indicator for the future. 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.

PERFORMANCE

Past performance does not predict future returns.

	1 Yr	3 Yrs	5 Yrs	Launch*
Fund	0.3	16.2	35.8	125.8
Index	-13.3	12.1	30.1	89.2
Sector	-8.1	20.7	20.7	104.8

Full discrete 12m performance is shown at the end of this commentary. Source: FE fundinfo, bid to bid, total return. *Launch: 19/12/2013. Investors should note that fees and expenses are charged to the capital of the Fund. This reduces the return on your investment by an amount equivalent to the Ongoing Charges Figure (OCF). The fund performance shown has been reduced by the current OCF of 0.89% per annum. Returns for share classes with a different OCF will vary accordingly. The performance returns do not reflect any initial charge; any such charge will also reduce the return.

SUMMARY: MARKETS

Asian markets, as measured by the Fund's benchmark, the MSCI AC Pacific ex Japan Net Return Index, were -1.2% lower in GBP terms (-5.8% in USD) in April. In the year to date, the Index is down -5.0% in GBP (-11.7% in USD) compared to the MSCI World Net Return Index, which is down -6.2% (-13.0% in USD).

The Fund outperformed its benchmark in April by 1.0%, with a return of -0.2% in GBP. In the first four months of the year the Fund is down -2.1% (Class Y in GBP) but has outperformed the market by 2.5%.

Volatility spiked during the month across equities, bonds and currencies.

Expectations for rapid rises in US interest rates this year pushed the 2-year US Treasury yield (the most sensitive to interest rate policy) up from 2.3% to 2.7%. The 10-year treasury yield reached 2.9%.

In USD terms, there were some big market moves. Singapore and Taiwan fell -7.5% and -9.8% respectively while Australia, Hong Kong and Korea fell between -5% and -6%. India fell -2% and China fell -4% (all as measured by the MSCI country indices).

Technology (-10.2%) and Materials (-8.2%) were the two weakest sectors, whereas Consumer (Staples & Discretionary), Energy and Real Estate held up better, falling between -1% and -3%.

The three best-performing stocks in the portfolio were NetEase, Zhejiang Supor and Corporate Travel Management; the three weakest were China Merchants Bank, Tech Mahindra and Elite Material.

SUMMARY: MACRO

Consumer price inflation (CPI), which continues to climb in the US and Europe, is now evident in Asia, albeit at lower levels. Interest rates have increased this year in Korea and Taiwan, while Singapore has increased the permitted rate of currency appreciation.

Indonesia and Thailand are likely, we think, to begin raising rates in the second half of the year.

China's commitment to a zero-Covid policy is being sorely tested. Rising cases have resulted in lockdowns affecting up to 400 million people and an estimated 30% of GDP. Cases in Shanghai are now coming down.

China's economic growth target of 5.5% looks increasingly hard to attain, although the government has recently reiterated it. Following stock price falls and weakening confidence measures, the government has also reiterated its commitment to supporting growth. They have also said the regulatory crackdown on the technology and e-commerce sector will soon conclude.

US consumer price inflation (CPI) for March reached 8.5%, while producer price inflation (PPI) accelerated to 15.2%. Agricultural commodity prices (sunflower oil, wheat and fertilisers) also reached new highs. Natural gas prices in Europe are below their March highs but still twice the 2021 average. In the US, natural gas prices are 1/5 those in Europe but are still 70% above 2021 levels.

Expectations grew that the Federal Reserve would increase interest rates by 0.5% at the next meeting, and it duly did so on 4th May, to 1%, up from 0.25% at the start of the year.

The dollar strengthened against the world's leading currencies by 4% in April as measured by the US Dollar Index (DXY) and it is up 7.6% this year. In Asia, the notable currency moves were the 6% decline in the Japanese yen, which is now 11% lower since the start of the year; the other big change is the 4.3% decline in the Chinese yuan which happened quickly in the last nine trading days of the month.

MACRO

Inflation pressures are now mounting globally. Consumer prices in the US are rising at over 8%, according to latest figures, while in France Germany, Italy, Spain and the UK inflation is running between 5% and 8%. This is being fed by higher commodity prices and supply chain disruptions in China add pressure which feed into higher producer prices that in their turn are being passed through to consumers. The war in Ukraine has added an extra dimension with its impact not only on higher natural gas and oil prices but also into the agricultural complex. Russia is a big supplier of (up to 25% of global supply) of phosphate fertiliser; Ukraine is a major supplier of both wheat and cooking (sunflower) oil. Disruption to these puts pressure on related products. For example, the shortage of sunflower oil has increased demand for and the price of high-grade palm oil, which has prompted Indonesia to impose an export ban as it seeks to prevent a domestic price spike.

Bond yields have increased (and therefore bond prices have fallen). Markets now anticipate a more aggressive cycle of interest rate increases as central banks battle to bring price pressures under control before inflation expectations have a chance to become embedded and start being reflected in wages. The 2-year US Treasury yield is the most sensitive to short-term policy rates and having started the year at 0.73% it had risen to 2.71% by the end of April. The 10-year US Treasury yield is the one most often used in equity valuations as the risk-free rate; this began the year at 1.51% and ended April at 2.93%. We think it is worth remembering that in 2007, before the Global Financial Crisis and before central banks engaged in quantitative easing (buying up vast quantities of bonds), these yields were closer to 5%.

Inflation pressures in Asia are less severe but are present to different degrees. China has seen the rate of producer price inflation decelerate from a peak of 13.5% in October 2021 to 8.3% in March, and it is expected to have been below 8% in April. Meanwhile consumer prices are rising only 1.5%. However, China is also experiencing downward pressure on economic growth as Covid cases surge, and the government continues its zero-Covid lockdown policy. The economic pressure is exacerbated by weakness in the residential real estate market. The impact of regulatory pressure on the technology and e-commerce sectors is felt less in the real economy but is largely confined to share price valuations. Interest rates are likely to come down in China as efforts increase to support the 5.5% official economic growth target.

Elsewhere in Asia, Singapore as the region's most open economy has seen the sharpest inflation increase to 5.4%. Taiwan and Korean consumer prices are rising at 3.4% and 4.8% respectively and both central banks have raised interest rates. Indonesia and Thailand inflation rates are below 3% at present, but pressures are building (as referred to above, with Indonesia's export ban on cooking oil to help control food prices). These two countries are expected to move more slowly in raising interest rates as their economies recover post-Covid. The economic sensitivities of countries in the region varies: the more developed markets of Korea, Taiwan and Singapore are sensitive to trade. Korea's trade breadth leaves it exposed to consumer weakness in Europe and the US, whereas Taiwan is more focused on technology, although supply disruptions delivered a sharp fall in recent trade growth. The poorer countries of Indonesia, Thailand and India are more exposed to energy and food price rises.

There are few places in the world we can point to for good economic news, except perhaps the oil and gas producers of the middle east. However, what we can say about is Asia is that the region is in better fundamental shape than it has ever been for these conditions. External balances (i.e. whether they export more than they import) have been positive for many years in China, Korea, Taiwan, Malaysia, Singapore and Thailand. Indonesia and India have been the weakest, each of them running current account deficits between -1% and -3% over the last five years and both are likely to see increases in their budget deficits. The banking sectors across the region are well capitalised and having come through Covid in good shape are better prepared for what is coming. Asian currencies have reflected this improved fundamental position. While the euro and sterling have fallen over -7% against the dollar this year, Asian currencies (excluding the Japanese yen which is down -12%) have fallen by -4.4% on average. Taiwan and Korea have seen falls in their currencies of -5% and -6% respectively this year, but the rest of southeast Asia has seen drops of between -1% (Indonesia) and -3% (Thailand).

MARKETS

Stock markets were exceptionally volatile in April. Growth stocks and those with little in the way of current profits have borne the brunt of market weakness. Elevated valuations based upon expectations of profits some way into the future are especially vulnerable to rising interest rates which diminish the value of those future profits in today's money. Markets are now beginning to adjust to the notion that inflationary pressures are greater than initially feared, exacerbated by the rise in energy costs. This is likely to require interest rates, especially in developed markets, to move up faster and further than thought. This more aggressive application of the monetary brakes introduces worries about earnings growth and the risk of recession.

Consensus forecasts for 2022 earnings at the index level have come down in the past month in all regions barring the US, where they have increased by 0.5% for the S&P 500 Index. The heaviest reductions have been in MSCI Europe (ex UK), which are -4% lower, and MSCI Japan, down -5.6%. UK FTSE 100 earnings estimates are down -1.3% in April. Asian earnings, for the MSCI AC Pacific ex Japan Index have been revised down by -2.3% in the past month. The most substantial drops were in MSCI China, down -5.0%, followed by Korea and Taiwan, whose estimates were cut by -4%. Estimates for Australia and Taiwan were little changed, whereas India and Indonesia saw the consensus forecasts rise by almost 2%.

A sector analysis helps us understand these numbers better, since different countries' indices are dominated by different themes. For example, Australia's estimates are almost unchanged in aggregate, but at the sector level we find -5% cuts to forecasts in Consumer Discretionary and Staples, Communication Services, Financials and Health Care which are offset by an 8% increase in Energy earnings estimates and a 4% increase in Materials, with Industrials, Real Estate and Utilities holding steady. In the case of Taiwan, its flat earnings revisions consist of a 2% increase in Technology (which accounts for 70% of the index) and declines of around -2% for everything else.

The breadth and duration of the lockdowns in China that have affected up to 400 million people is starting to show up in confidence measures for both manufacturers and consumers. Earnings revisions in the Chinese Consumer Discretionary sector have been revised down the most, by -9.7%, but even here we must be careful: the biggest cuts have been the leisure services industry, including hotels and amongst the car makers. Specialty retail and apparel (where the Fund has exposure) have seen much more modest cuts. The other weaker sector for earnings revisions was Real Estate, with estimates scaled back by 7% during the month.

Having said all this, we think it is important to recognise index level earnings revisions at the index level can be swayed significantly by a small number of heavyweight stocks or by sector concentrations that may be specific to an individual country market. Our actively managed, equally weighted portfolio will look very different to an index. Secondly, we also need to remember that earnings revisions, while informative as to market views, are shorter-term momentum indicators and need to be considered in the context of our 2-3 year investment horizon. We can see that China is wrestling with both Covid outbreaks and a slowing Real Estate sector; inevitably, near-term and earnings numbers need to be adjusted to reflect that. But we also know (or at least we are confident) that these issues will resolve, and that China has capital and fiscal resources available. Therefore, we need to review valuations in the context of a longer time horizon.

On current consensus estimates, earnings growth over the next two years (2022 and 2023) for developed markets as measured by the MSCI World index is forecast to be 10.1% per annum (p.a.). For Europe ex UK, growth is forecast at 11.9% p.a. and for the US it is 13.3%. Earnings for MSCI AC Pacific ex Japan are expected grow 11.5% per annum with China currently forecast to grow 10.1% p.a. Market valuations in terms of the Price/Earnings (P/E) multiple have come down significantly more than earnings forecasts this year. The 1-year forward P/E multiple (for 2022 earnings) in Asia is now 20% below its 10-year average; in Europe, the valuation is 16% below the 10-year average. The US forward P/E multiple began the year at a 19% premium to the long run average and is now at a 1% discount.

PORTFOLIO CHANGES

There were no changes to the portfolio.

STOCKS COMMENTARY

The best-performing stock in April was NetEase, a Chinese videogame developer. The company reported good results earlier in the year with a significant dividend increase. There is a strong pipeline of new videogame titles coming through and sales in April rose 15% compared to the prior month, driven by two titles in particular: Fantasy Westward Journey, where 27% growth in April followed a 31% increase in March, and Night Falls: Survival, whose sales doubled. Videogame companies have been in the regulatory spotlight in recent months, but NetEase has been notable in its proactive stance, especially with respect to applying robust usage limits on younger players. Earnings estimates have been cut by 3% in past month, but earnings are still forecast to grow an average 16% a year over the next three years.

The weakest stock was China Merchants Bank, whose share price fell following the arrest of its former president by the country's anti-corruption body. Details are scarce but we do not think this will have an impact on the fundamental operations of the bank, which now generates a return on equity of 17%. Results from the first quarter were good with net interest margin expansion delivering operating profit growth (before credit costs) of 9% and net profit growth of 13% year-on-year. There was, however, a deterioration in asset quality from real estate and credit card loans. Management made a point of providing detailed disclosure on property exposure. Total real estate exposure is 5.5% of total assets, of which domestic real estate loans account for 70%; the non-performing loan ratio for this segment in 2.6% compared to a 0.94% non-performing loan ratio for the overall loan book.

Largan Precision reported first quarter sales were down 14% year-on-year, but profits increased by 4%. April sales showed further evidence of stabilisation following sales and profit declines over the past year.

TSMC continues to report strong sales and profits growth as chip supplies remain tight. Revenues for the first four months of 2022 grew 40% of the same period last year and has announced plans to raise prices by 6% in 2023.

Results from Tisco Financial for the first quarter saw profit up 2% year-on-year, ahead of forecasts. Loan growth was positive for the first time in three years while credit costs and the non-performing loan ratio continued to fall. Net interest margins rose to 5.09% on changes to the loan mix (used car hire-purchase loans rose 2.3%) and a falling cost of funds.

Ping An Insurance group results now look more encouraging with post-tax profit up 10% in the first quarter, ahead of expectations. Both the life insurance business and the bank delivered strong profit growth (15% and 27% respectively). The company did not say much about its progress in reorganising its sales force, but the zero-Covid policy is an obstacle. We continue to monitor this.

Qualcomm surprised the market, which had feared the effects of chip supply disruptions, with a strong set of results. The company saw growth across all segments led by share gains in the premium Android segment and increased content in smartphones.

Aflac results for the first quarter came at the top end of market expectations, but weakness in Japanese sales continues to weigh on the longer-term outlook. As with Ping An, limits on the ability to meet customers face to face is having an impact on new business.

The Chinese dairy company Inner Mongolia Yili reported first quarter sales up 13% and profit up 24%, and it was a similar picture for the full year 2021. The dividend was increased by 17%. The 14% sales growth in 2021 growth was the combination of 8% volume growth, 4% product mix and 2% price hike. First quarter results included margin improvement at both gross and net profit levels.

Elite Material reported 24% year-on-year sales growth in the first quarter and 37% profit growth. More importantly, we think we shall see sequential growth in the second quarter despite the effects of lockdowns. Infrastructure equipment is likely to be main driver and it seems that underlying demand across the product range remains firm.

Suofeiya Home Collection has been affected by the slowdown in the China real estate sector and was exposed to Evergrande (by supplying furnishings). Nevertheless, in spite of the profit drop in 2021 the company maintained its dividend, indicating confidence in core business momentum. Revenue growth of 6.5% for the first quarter came in ahead of market expectations, with the retail channel especially strong.

DBS Group in Singapore reported first quarter net profit down 10%, but this had more to do with the high base for comparison in wealth management and treasury market a year ago, with lower fees and commissions the main culprits. The market had already factored this in, and results were better than expected. Asset quality remained steady, and whilst net interest margin was down a little, management sticks to the guidance of S$18-20 million of net interest income per basis point increase in USD interest rates.

Novatek Microelectronics, a Taiwanese chip designer, reported first quarter results that were ahead of forecasts. Revenues were 38% higher than the same period last year and profits were up 90%, but the market focus is on the cycle, the ability to pass on cost increases as much as they did in 2021, and increased competition from Chinese peers.

Zhejiang Supor, a Chinese cookware and small appliance manufacturer, reported 9% year-on-year revenue growth and operating margin expansion of 0.6% to 11.8% which delivered 7% net profit growth after a slight increase to its effective tax rate. The company noted its exposure to the continued lockdowns and intensifying competition.

OUTLOOK

The operating environment both globally and regionally has become increasingly challenging, and companies must face the challenges of rising costs and weakening demand. Our focus on quality companies has never been more important. As valuations whip around, we continue to focus our investment thinking in terms of the total shareholder return framework: quality businesses are better able to generate higher returns on capital to sustain earnings and cash flow growth. These also support the dividend stream, which we seek to grow over time. We have always, since the Fund was launched, focused on these fundamental aspects, which allows us to treat big valuation swings not as a distraction but as an opportunity. Asia is trading, as we discussed earlier, at a 20% discount to its long run average; the Fund is trading at a 20% valuation discount to the region, and the historic yield on the portfolio is now over 4%.

	EPS % Chg			Valuation		Yield – 2021 Historic	
	2018-20	2021-23	Fund % p.a. Premium/ discount	2022 PE	Fund % Premium/ discount	Y Share class USD	Fund % Premium/ discount
Fund	-1.8%	8.3%		9.8		4.3%	
MSCI AC Pacific ex Japan	-19.9%	11.5%	-2.9%	11.9	-18%	3.0%	43%
MSCI Developed Asia	-43.6%	18.0%	-8.3%	14.9	-34%	4.2%	2%
MSCI Emerging Asia	-10.3%	11.3%	-2.7%	11.8	-17%	2.9%	47%
US S&P 500	-9.8%	13.3%	-4.4%	17.8	-45%	1.6%	167%
MSCI Europe ex UK	-26.9%	11.9%	-3.2%	13.4	-27%	2.3%	86%
UK FTSE 100	-56.3%	19.2%	-9.2%	10.2	-4%	3.9%	10%
MSCI World (Developed)	-17.5%	10.1%	-1.7%	16.2	-40%	2.0%	114%

Source: Bloomberg.

Historic yields based on 2021 distributions versus the price/index level as at 6 May 2022. Index yields are net of taxes. They do not include any preliminary charges and investors may be subject to tax on distributions.

Portfolio managers

Edmund Harriss

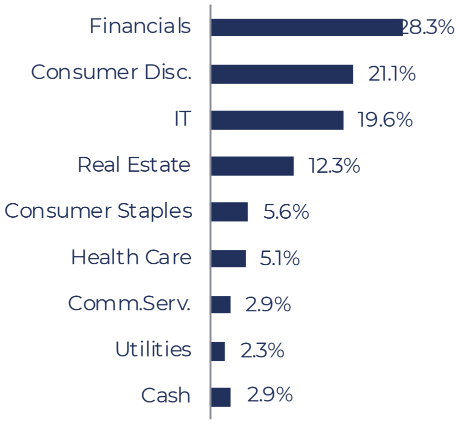
Mark Hammonds

Portfolio

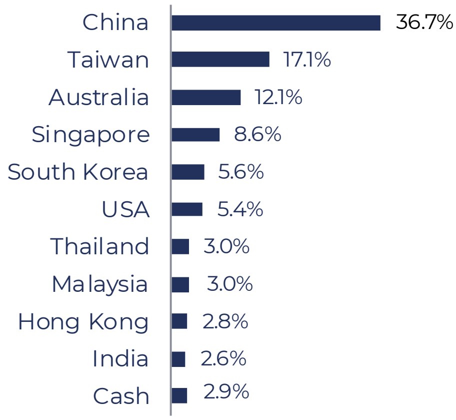
Fund top 10 holdings

China Overseas Land	3.6%
JB Hi-fi	3.5%
Corporate Travel Management	3.3%
CapitaLand Integrated Comme	3.1%
Tisco Financial Foreign	3.0%
Aflac	3.0%
BOC Hong Kong	3.0%
Public Bank Bhd	3.0%
ICBC	3.0%
Metcash	2.9%
% of Fund in top 10	31.5%
Total number of stocks in Fund	36

Sector analysis



Geographic allocation



Performance

Past performance does not predict future returns **30/04/2022**

Discrete 12m % total return (GBP)	**Apr '22**	**Apr '21**	**Apr '20**	**Apr '19**	**Apr '18**	**Apr '17**	**Apr '16**	**Apr '15**	**Apr '14**	**Apr '13**
Fund (Y class, 0.89% OCF)	0.25	32.43	-12.50	5.82	10.42	37.00	-10.27	35.21		
MSCI AC Pacific ex Japan Index	-13.27	35.14	-4.32	2.23	13.44	36.02	-13.11	22.17	-7.00	18.11
IA Asia Pacific ex Japan	-8.14	38.75	-5.28	2.61	12.18	34.67	-10.45	20.86	-6.84	16.91

Cumulative % total return (GBP)	**1 M**	**YTD**	**1 Year**	**3 Yrs**	**5 Yrs**	**Launch***
Fund (Y class, 0.89% OCF)	-0.19	-2.16	0.25	16.16	35.82	125.77
MSCI AC Pacific ex Japan Index	-1.23	-4.98	-13.27	12.14	30.05	89.20
IA Asia Pacific ex Japan	-1.13	1.47	-8.14	20.74	38.98	104.84

Annualised % total return from launch (GBP)

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

30/04/2022	**Index**	**Sector**	**Fund**
Alpha	0	1.74	3.51
Beta	1	0.89	0.84
Information ratio	0	0.27	0.33
Maximum drawdown	-26.36	-24.54	-24.84
R squared	1	0.95	0.81
Sharpe ratio	0.28	0.39	0.47
Tracking error	0	3.52	6.75
Volatility	15.33	13.97	14.29

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 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