Guinness Asian Equity Income Fund

INVESTMENT COMMENTARY – March 2021

Launch date	**19.12.2013**
Team	**Edmund Harriss** (manager) **Mark Hammonds** (manager) **Sharukh Malik** (analyst)

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.

Performance (in GBP)

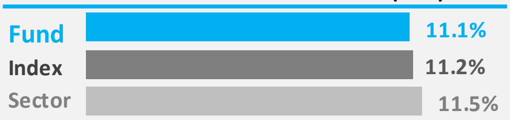
28/02/2021

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

	2020	2019	2018
Fund	4.8	14.4	-10.3
Index	19.2	15.7	-9.2
Sector	20.0	15.8	-9.8

	YTD	1 year	From launch
Fund	3.7	19.0	113.2
Index	2.8	28.1	114.8
Sector	3.7	31.6	119.0

Annualised % total return from launch (GBP)



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0	1.3	1.4
Beta	1	0.9	0.9
Info ratio	0	0.1	0.0
Max drwdn	-26.4	-24.5	-24.8
Tracking err	0	3.5	6.1
Volatility	15.6	14.3	14.8
Sharpe ratio	0.5	0.6	0.5

Past performance should not be taken as an indicator of future performance. The value of this investment and any income arising from it can fall as well as rise as a result of market and currency fluctuations. Returns for share classes with a different OCF will vary accordingly.

Source: Financial Express, Y class 0.99%, bid to bid, total return. Please refer to the penultimate page of this document for full performance details.

ELITE RATED by FundCalibre.com

Fund & Market

- In February, the Fund rose 0.6% in GBP (2.5% in EUR, 2.4% in USD), as measured by the Y share class which was over 1% ahead of the market as measured by the MSCI AC Pacific ex Japan Net Total return Index, but was 1.7% behind the MSCI Asia Pacific ex Japan Value Index.
- Growth stocks, as measured by the MSCI Asia Pacific ex Japan Growth Index, fell -2.9% in GBP terms (-1.2%% in USD/-0.7% in EUR) compared to a 2.3% rise (4.1% in USD/4.6% in EUR) in the equivalent Value Index.
- The Fund has defended well since Asian stock markets turned lower after Chinese New Year, having also defended well during the brief drawdown in January. This has continued into March.
- Growth gave way to Value in February and the best-performing sectors were Energy, Financials, Materials and Real Estate; the weakest were Consumer Staples, Consumer Discretionary and Health Care.
- Hong Kong, India and Taiwan were the best-performing markets during the month; the weakest were New Zealand (where we have no exposure), China, Korea and Malaysia.
- Leading stocks in the Fund were Taiwanese technology manufacturers Novatek, Elite Material and Largan Precision together with Corporate Travel, China Mobile, BOC Hong Kong and China Medical Systems.
- The weakest stocks over the month were Qualcomm, JB Hi-Fi, Hanon Systems, Sonic Healthcare and Zhejiang Supor Cookware.

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- Good sets of company results have been coming through from KT&G, Hanon, DBS, Novatek, Aflac, Qualcomm and Sonic Healthcare. Weaker results came from Ping An, Corporate Travel, Zhejiang Supor and Tisco. Dividends have increased from all but Tisco (regulatory constraints being higher than expected) and Zhejiang Supor, which has yet to announce its dividend.

Events

- US bond yields had already begun to rise in January, as we highlighted in last month's review; in February this continued and the market began to pay attention.

- Vaccine roll-outs in Europe have been stuttering and there are growing signs of vaccine protectionism which threaten continuity of supply. It is a reminder that society's exit from COVID remains far from smooth.

- While not mentioned often in the press, the renminbi has been strong against the US dollar, appreciating from USDCNY 7.1364 on May 31st 2020 to USDCNY 6.4737 on Feb 26th 2021. This we think is in part not only because interest rates in China are higher than in the US but also because China's relative economic strength is attracting inflows.

Market Review

Stock markets in Asia turned notably weaker following the Chinese New Year holidays. This was driven by a sharp change in sentiment coming from the US which translated into a move away from Growth stocks into Value. US Treasury bond yields have been moving higher since the start of the year but this gained pace in February. The concerns appear to centre around expectations of higher inflation as economies emerge from COVID, flush with cash from a build-up in savings and massive government financial injections.

We will not take a view here on whether the market's belief is correct or not, but for the stocks the impact of higher bond yields can be significant. It can be especially so for those sometimes described as 'long duration' stocks, whose high growth profile has been attractive to investors but for whom high cash flows and profitability remains some years into the future. The contrast between these types of stocks and those held in the Fund is profound.

The business we hold are highly cash-generative businesses and while they offer growth – albeit slower than the market average – this growth is accompanied by profits, cash flows and dividends. Added to this, the valuation of the portfolio is at a 20% discount to the market (as measured by the Fund's benchmark, MSCI AC Pacific ex Japan Index) on a Price/Earnings multiple basis.

As we noted in the summary segment at the front of this piece, the best-performing sectors include Energy, Financials, Materials and Real Estate. Banks are beneficiaries of the steepening yield curve – that is, interest rates for longer maturities (5, 7, 10, 20 years) rising faster than short-dated interest rates. This is because banks pay interest on funds at their disposal based on short-term interest rates, but they tend to lend for longer periods and thus the steepening yield curve widens the spread between what they must pay their depositors versus what they receive on their loans. Beneficiaries of this effect in the portfolio are BOC Hong Kong, DBS and Public Bank. The effect is less pronounced in China Construction Bank and China Merchants.

The Energy and Materials sectors have also had a strong run, but we are more cautious. We don't have any exposure to these areas but it is still relevant to our thinking. Materials are dominated, in stock market terms, by the miners and smelters of industrial materials such as iron ore, copper, aluminium and zinc. China's demand for these commodities has a significant influence over prices, as does new supply from new mines, and the impact is felt heavily amongst commodity-producing nations from Australia to Brazil and South Africa. We note that China appears to be trying once again to scale back increases in debt (associated with heavy industry) and to cut back polluting, resource-intensive output including steel. We think the outlook for some miners may become more challenging.

Portfolio Review

So far this year, 18 of the 36 companies in the portfolio have declared quarterly, interim or final dividends. Of those, 10 reported an increase, 1 was unchanged, 6 were down and 1 omitted its dividend. Importantly, there were no negative surprises: dividend declines and the omission were all anticipated given what has gone before and we are looking forward to recovery in the coming year.

- **JB Hi-Fi** increased its interim dividend by 82% on the back of strong results, which compares with a 9% increase the year before.

- **Public Bank** in Malaysia raised its interim dividend 63% compared to an 18% rise in the prior year. This compensated shareholders for the second half dividend omission last year.

- **Hanon Systems** boosted its final quarterly dividend by 45% to bring the full year distribution for 2020 back to 2019's level.

- **Aflac** increased its quarterly dividend by 18%. The company usually increases its quarterly dividend run rate by a penny each year but has been known to raise the trajectory, the last time being a 15% increase between 2017 and 2018.

- **Largan Precision** increased its dividend by 16%, in line with the 16% increase the year before. The company noted it has substantial cash reserves on the balance sheet.

- **Elite Material** raised its dividend by 15%, following a 52% increase last year which keeps the proportion of profits paid out at around the 60% level.

- **KT&G** increased its dividend by 10% in line with recent years.

- **Ping An Insurance** raised the dividend by 8% compared to 18% the year before, after reporting weaker results for the final quarter. Our view is that these final quarter results will set up a strong couple of years ahead.

- **Sonic Healthcare**'s dividend increased 6% following a minimal 3% increase last year. Company results reflected strong contributions from COVID testing which are unlikely to be sustained but the core business is still growing well.

- **Qualcomm**'s dividend rose 5% having been unchanged the year before.

- **Taiwan Semiconductor Manufacturing**'s quarterly dividend has remained unchanged for almost two years and this may well reflect growing capital expenditure requirements to include not only improved production technology but now also geographic diversification of production.

- **Korean Reinsurance** dividend fell 10% last year, which followed an 82% increase the year before. Natural disaster claims related to flooding in Korea as well as COVID-related claims weighed in the second half.

- **Tisco Financial**'s dividend fell 19% after the regulator required banks to cap dividends from banking operations. Tisco operates businesses (such as asset management) that fall outside the scope and the company exceeded market expectations by paying out a much higher proportion of profits from non-banking operations.

- **Capitaland Integrated Commercial Trust** reported an interim dividend down 44% on the prior year, in line with expectations. Like its fellow REIT, Ascendas, the distribution amounts are very uneven. Our view is that re-emergence from COVID in its retail and office portfolio is progressing.

- **DBS**' quarterly dividend was down 45% on last year but in line with the dividend cap imposed by the banking regulator in the middle of last year. The regulator has not yet announced any change to its position, but we believe DBS' results were good across the board (margins, fee income and asset quality).

- **Ascendas REIT**'s interim dividend was down 52% on last year. The company has been highly active in expanding and (geographically) diversifying its portfolio. Its distribution pattern is uneven, which reduces its aid as a signal for any operational challenges, but operational reports look positive and we think that as acquisitions bed in the distributions should increase once again.

- **NetEase** dividend fell 71% year on year but this followed a 113% increase in the prior year. The company follows a distribution policy of 20-30% of net income and the company includes exceptional items and foreign exchange gains and losses in the calculation. The strength of the renminbi in the latter part of last year depressed its international revenues when translated back into the reporting currency. Once again however, operations look very encouraging and a new games pipeline should come through in the coming months.

- **Corporate Travel Management** omitted its dividend once again as expected and is likely to omit the next one. The company is very well placed, we believe, to emerge from the pandemic very much stronger than its peers.

Outlook

We will provide a more detailed outlook in our quarterly report that will come out shortly. For the present, we think that the market will continue to look favourably on companies that are generating decent earnings and importantly can show positive momentum in operating performance which trade on attractive valuations. Stock markets appear to be becoming more cautious on the "jam tomorrow" growth investing approach, or at least appear to be less willing to pay up for it.

Thus, we think that our portfolio is well positioned. Based on consensus forecast estimates, the 3 year compound annual growth rate (3-year CAGR) for earnings per share is 8.3% compared to 9.4% for the market (as measured by MSCI AC Pacific ex Japan) and it traded on a Price Earnings multiple discount of 22% based on consensus estimated earnings for 2021 and a 17% discount on 2022 earnings forecasts.

Edmund Harriss (Portfolio Manager)
Mark Hammonds (Portfolio Manager)
Sharukh Malik (Analyst)

Data sources

Fund performance: *Financial Express, total return, in GBP*

Index and stock data: *Bloomberg*

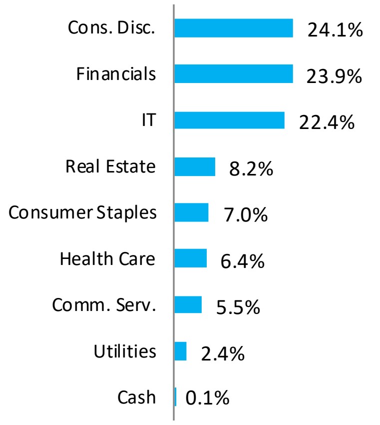
PORTFOLIO

28/02/2021

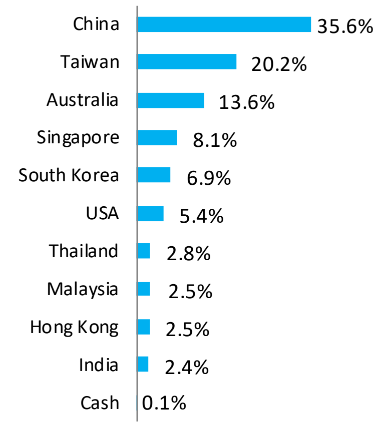
Fund top 10 holdings

JB Hi-fi	5.0%
Hon Hai Precision Industry	3.3%
China Medical System	3.2%
Suofeiya Home Collection	3.2%
Corporate Travel Management	3.2%
Sonic Healthcare	3.1%
Novatek Microelectronics	3.1%
China Merchants Bank	3.0%
Largan Precision	3.0%
Taiwan Semiconductor	2.9%
% of Fund in top 10	33.1%
Total number of stocks in Fund	36

Sector analysis



Geographic allocation



PERFORMANCE

28/02/2021

Discrete years % total return (GBP)	Feb '21	Feb '20	Feb '19	Feb '18	Feb '17
Fund (Y class, 0.99% OCF)	19.0	-1.9	-3.8	14.8	38.6
MSCI AC Pacific ex Japan Index	28.1	4.2	-3.8	15.5	43.4
IA Asia Pacific ex Japan	31.6	3.8	-4.1	15.1	38.9

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	From launch
Fund (Y class, 0.99% OCF)	0.6	3.7	19.0	12.3	113.2
MSCI AC Pacific ex Japan Index	-0.8	2.8	28.1	28.4	114.8
IA Asia Pacific ex Japan	0.4	3.7	31.6	31.1	119.0

Annualised % total return from launch (GBP)

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

28/02/2021	Index	Sector	Fund
Alpha	0	1.32	1.39
Beta	1	0.90	0.87
Information ratio	0	0.08	0.00
Maximum drawdown	-26.36	-24.54	-24.84
R squared	1	0.95	0.85
Sharpe ratio	0.49	0.55	0.52
Tracking error	0	3.52	6.13
Volatility	15.60	14.33	14.76

Past performance should not be taken as an indicator of future performance. The value of this investment and any income arising from it can fall as well as rise as a result of market and currency fluctuations.
Source: Financial Express, bid to bid, total return (Y Class, 0.99% OCF). Fund launch date: 19.12.2013. 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.

Important information

Issued by Guinness Asset Management Limited, authorised and regulated by the Financial Conduct Authority.

This report is primarily designed to inform you about equities and equity markets invested in by the Guinness Asian Equity Income Fund. It may provide information about the Fund's portfolio, including recent activity and performance. It contains facts relating to the equity markets and our own interpretation. Any investment decision should take account of the subjectivity of the comments contained in the report.

This document is provided for information only and all the information contained in it is believed to be reliable but may be inaccurate or incomplete; any opinions stated are honestly held at the time of writing, but are not guaranteed. The contents of the document should not therefore be relied upon. It should not be taken as a recommendation to make an investment in the Fund or to buy or sell individual securities, nor does it constitute an offer for sale.

Risk
The Guinness Asian Equity Income Fund is an equity fund. Investors should be willing and able to assume the risks of equity investing. The value of an investment and the income from it can fall as well as rise as a result of market and currency movement, and you may not get back the amount originally invested. The Fund invests only in stocks of companies that are traded on Asian stock exchanges or that do at least half of their business in Asia; it is therefore susceptible to the performance of that region, and can be volatile. Details on the risk factors are included in the Fund's documentation, available on our website. Shareholders should note that all or part of the fees and expenses will be charged to the capital of the Fund. This will have the effect of lowering the capital value of your investment.

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

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

Residency
In countries where the Fund is not registered for sale or in any other circumstances where its distribution is not authorised or is unlawful, the Fund should not be distributed to resident Retail Clients. **NOTE: THIS INVESTMENT IS NOT FOR SALE TO U.S. PERSONS.**

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

Switzerland
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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.