Guinness Asian Equity Income Fund

INVESTMENT COMMENTARY – April 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)

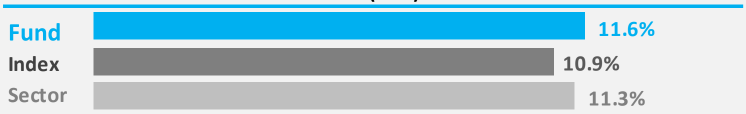
31/03/2021

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

	2020	2019	2018	2017	2016
Fund	4.8	14.4	-10.3	24.6	28.2
Index	19.2	15.7	-9.2	25.1	28.2
Sector	20.0	15.8	-9.8	25.3	25.7

	YTD	1 year	3 years	5 years	From launch
Fund	8.0	42.7	21.6	77.0	122.0
Index	1.5	41.2	31.9	94.4	112.1
Sector	3.5	48.5	35.8	96.9	118.5

Annualised % total return from launch (GBP)



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0	1.4	2.2
Beta	1	0.9	0.9
Info ratio	0	0.1	0.1
Max drwdn	-26.4	-24.5	-24.8
Tracking err	0	3.5	6.2
Volatility	15.5	14.3	14.7
Sharpe ratio	0.5	0.5	0.6

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 0.89%, bid to bid, total return. **Please note: As of 1st April 2021, the Y class OCF has reduced from 0.99% to 0.89%.** Please refer to the penultimate page of this document for full performance details.

ELITE RATED by FundCalibre.com

Summary: Performance

In **March**, the Fund rose 4.2% (Y class, in GBP) compared to the MSCI AC Pacific ex Japan Net Total Return Index benchmark which fell -1.5%.

- The Fund outperformed Value and Growth stocks in March. Value stocks, as measured by the MSCI AC Asia Pacific ex Japan Value Net Total Return Index, rose 0.7% (in GBP) compared to Growth stocks which fell 2.7%.

- The Fund also outperformed high-yielding stocks as measured by the MSCI AC Asia Pacific ex Japan High Dividend Yield Index which rose 2.7%.

In the **Quarter**, the Fund rose 8.0% (in GBP) compared to the benchmark which rose 1.5%.

- The Fund outperformed Value stock which rose 4.2% and Growth stocks which fell -0.8%.

- High yielding stocks rose 5.9%.

The Fund is built around investing in shares of companies that have delivered returns on capital that have been above the cost of capital for at least eight consecutive years, which we think will persist but whose shares are priced as if they will not. This is the valuation anomaly we seek to capture.

We made no changes in the quarter, having made 8 changes in

2020, two of them in the fourth quarter.

The key driver of outperformance this quarter has been the Fund's ability to hold onto its gains.

- In the first part of the year, up to the market peak on 17 February, the Fund climbed 8.9% (in GBP) while the benchmark rose 11.2%, led by a 13.2% rise in Growth stocks.

- After 17 February, market sentiment changed. The Fund held on, falling 0.8% whereas the benchmark fell 8.8%, led by Growth stocks that fell 12.4%.

- This delivered the result for the Quarter with the Fund up 8.0% versus the Index up 1.5%.

Market performance in the quarter has come against a backdrop of heightened uncertainty as economies look toward re-emergence from lockdowns. Interest rates, as indicated by developed market bond yields, are climbing back from 'pandemic' lows. Markets are weighing a possible inflation surge, driven by increased personal savings and government stimulus, against the likely economic costs from business closures and higher taxation.

The Fund's investment approach, with its focus on the delivery of higher cash flows today rather than the promise of them in the future, we believe is well-suited to current conditions.

Summary: Dividends

Dividend policies in the Asia Pacific region fall into two categories. Progressive dividend polices, where companies seek to increase the dividend per share incrementally year after year, are mostly associated with developed markets in the region (Australia, New Zealand, Singapore and to some extent, Hong Kong). The more widely followed approach is to set a policy based on a proportion of earnings, often referred to as a pay-out ratio.

A pay-out ratio policy means that dividends per share can fluctuate with earnings per share, meaning a decline does not necessarily equal a cut. This is more than just semantics: a dividend cut is a capital allocation decision made by management which we regard as significant. A dividend that declines in line with earnings is explainable and has lower significance to us.

That said, we think the Fund has had a good reporting season. Twenty-eight out of the thirty-six companies we hold reported interim or full year results:

Out of the 28 holdings to report in the first quarter:

- 16 companies **grew** their dividend.
- 2 companies kept their dividend **flat**
- 7 companies reported a **decline** in their dividend
- 2 companies **cut** their dividend (DBS & Tisco, both under regulatory direction)
- 1 company omitted its dividend (Corporate Travel Management).

The highest dividend growth came from JB Hi-Fi in Australia and China Medical System which both saw strong operational performance in 2020, followed by Hanon Systems and Public Bank in Malaysia which increased their distributions to restore reductions made last year. Aflac reported the fifth-fastest growth in the portfolio; it usually follows an incrementally progressive dividend policy but made a step-change to the trajectory, rising 18% compared to last year, something it has done before in its history, most recently in 2017-18.

The seven companies which reported dividend declines, did so in line with operating results. Two companies, DBS and Tisco cut their dividends by 45% and 19% respectively, following notices from the Central Banks of Singapore and Thailand last year. Markets were therefore aware of what was coming and in Tisco's case were positively surprised by the degree to which the 50% cut required of Thai banks was offset by a higher distribution from Tisco's non-banking financial businesses such as its asset management division.

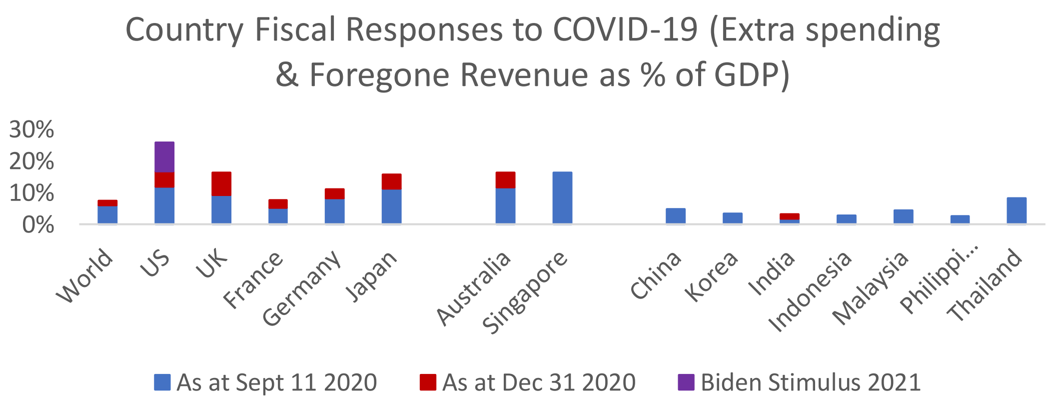
The one company to omit its dividend was Corporate Travel Management. The company's operations were effectively suspended last year as travel restrictions came into force. We have held onto the business and bought more on weakness during 2020, because of its flexibility to do just that and because of its strong financial position. We were rewarded in that decision with the company's acquisition of Transport and Travel Inc in the US which we think could add 30% to earnings. The absence of an interim dividend did not surprise us, or the market which responded positively to results, and it is quite possible the final dividend will also be omitted.

Quarter Review

Macro review

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

In our Annual Review for 2020 we produced a chart using IMF data showing the proportion of GDP 'spent' by governments on economic support in the form of both actual spending and tax revenue foregone. This has increased in developed markets since the data produced in September, but the game-changer has been the stimulus package introduced by President Biden:

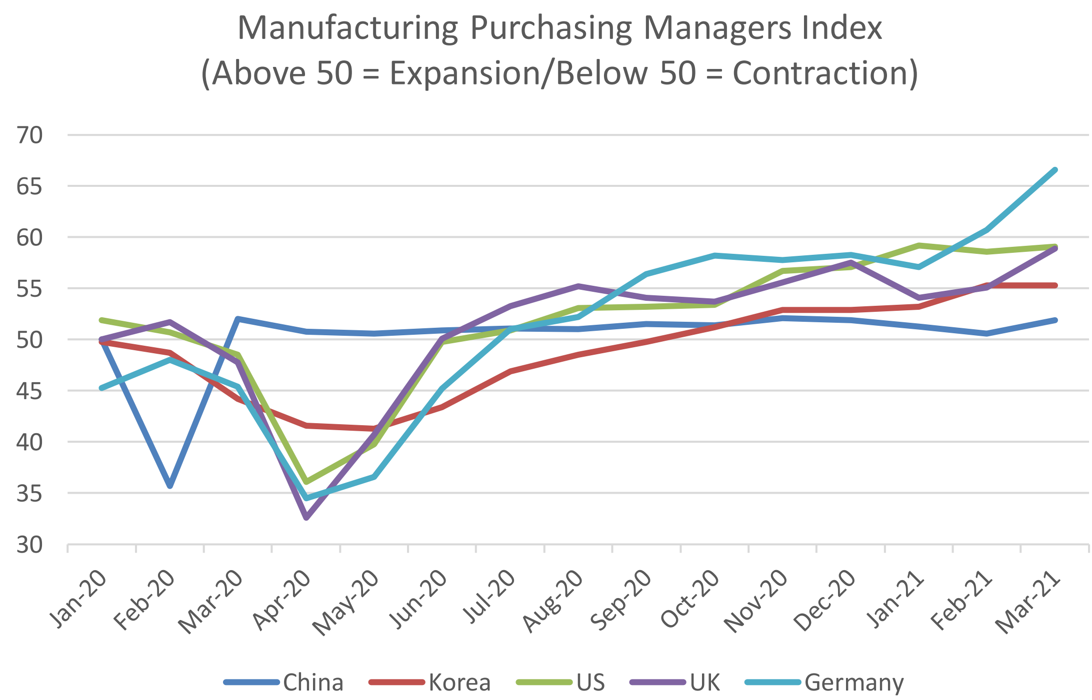


Source: IMF Fiscal Monitor - Database of Country Fiscal Measures in Response to the COVID-19 Pandemic. Data as at 31 Dec 2020, PLUS (in purple) the additional Biden stimulus package.

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

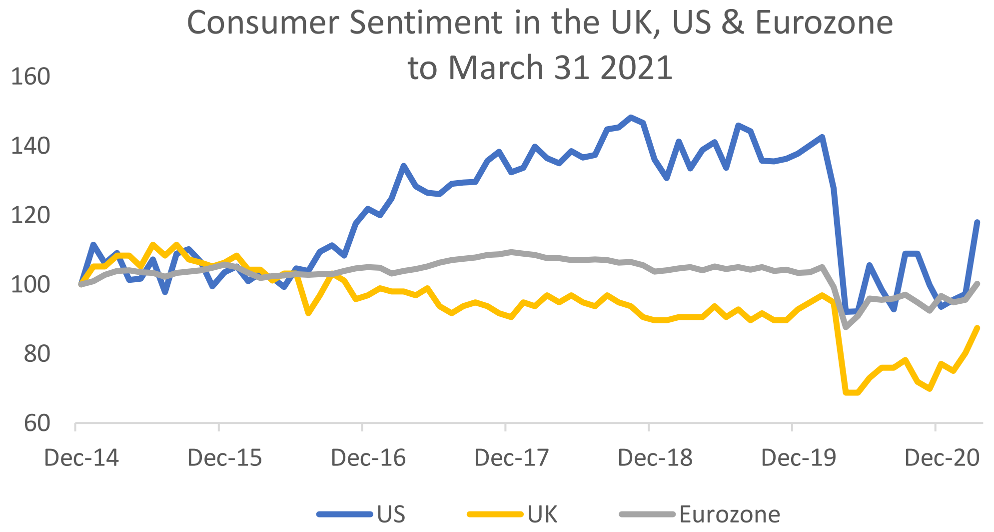
Perhaps it's too early to state definitively that government-led Keynesian-style economic policies akin to those of the 1950s to 1970s is now the order of things, replacing the monetarist Friedman-style policies of recent decades. But that seems to be the way markets are thinking. The most immediate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

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



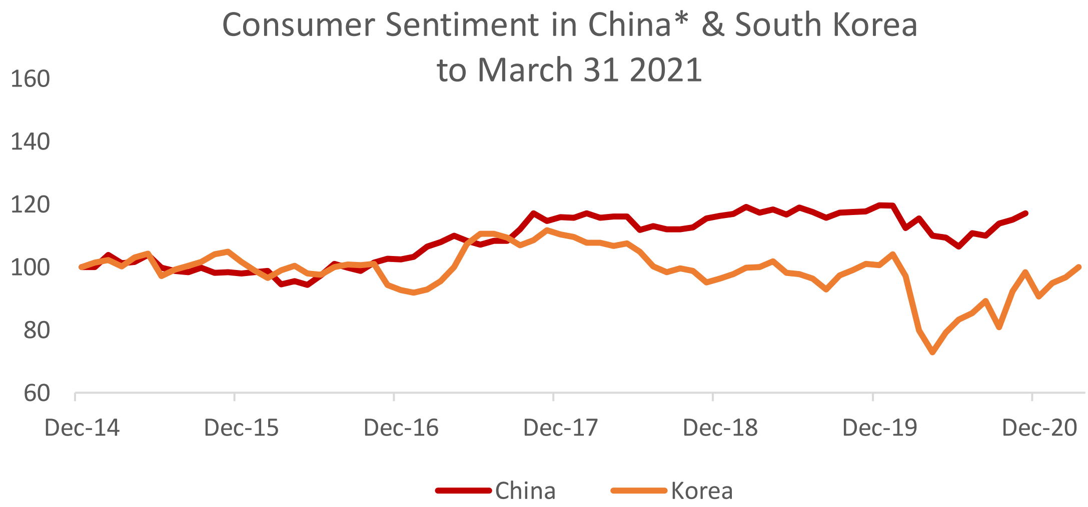
Sources: China - National Bureau of Statistics; Korea, US, UK, Germany - Markit

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



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

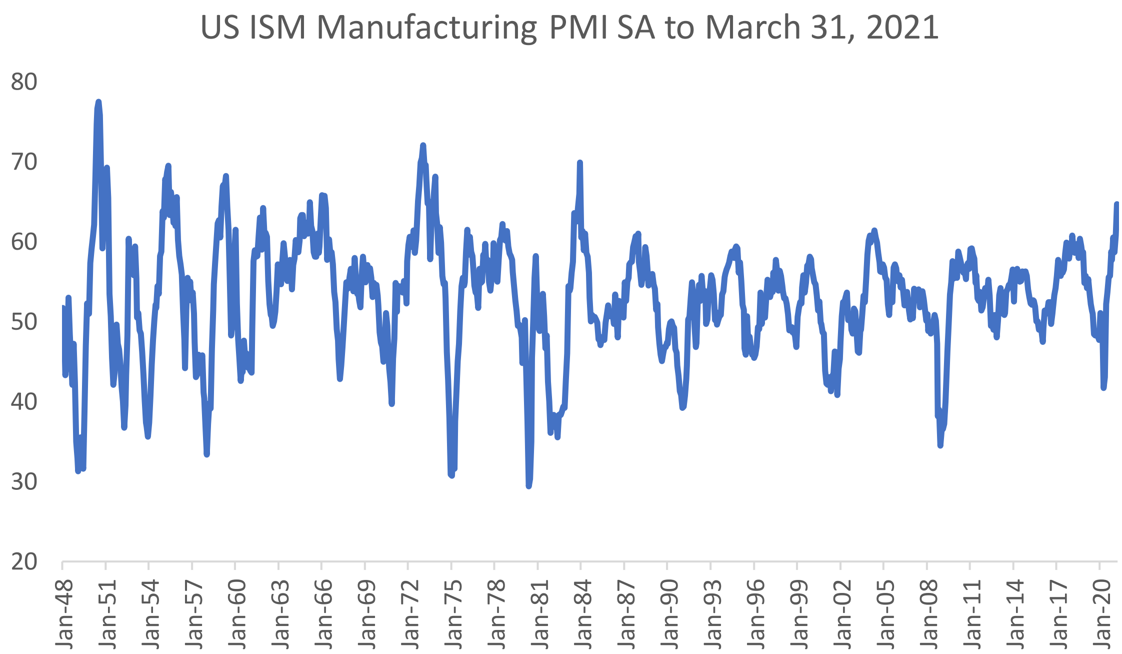
In Asia, we can see consumer confidence remains positive and substantially less volatile (although China's data is only to January 31, 2021) but it lags the recovery in industrial production and trade:



*Latest China data as of January 31, 2021

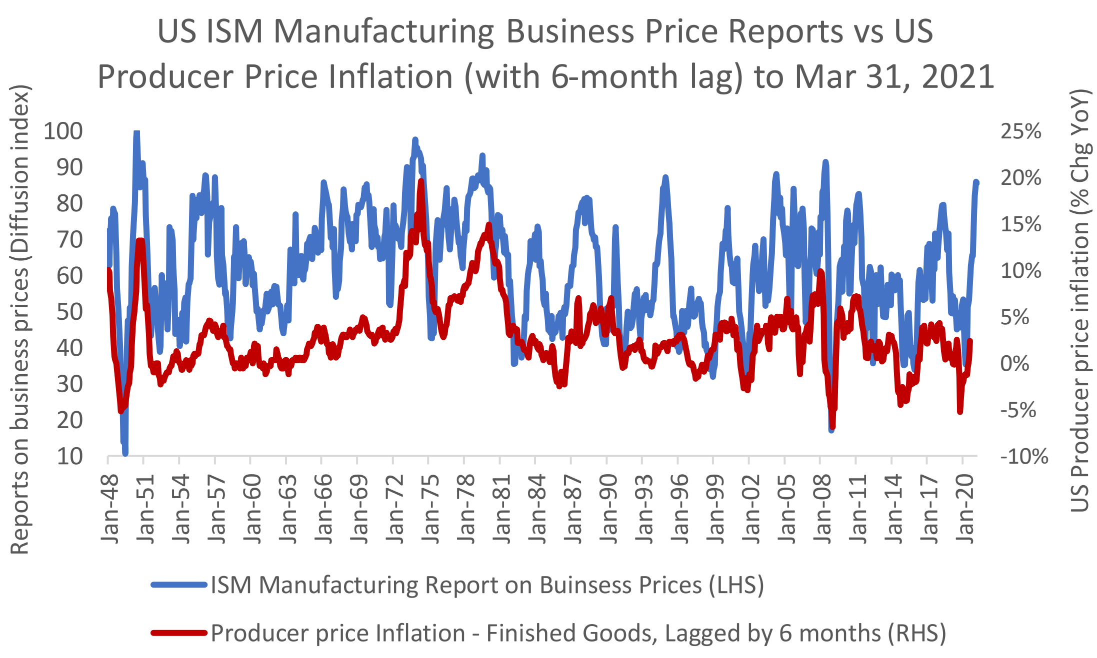
Sources: China - National Bureau of Statistics; Korea - Bank of Korea. Rebased to Dec 2014 = 100, Guinness Asset Management calculation.

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



Sources: Institute for Supply Management, Bloomberg

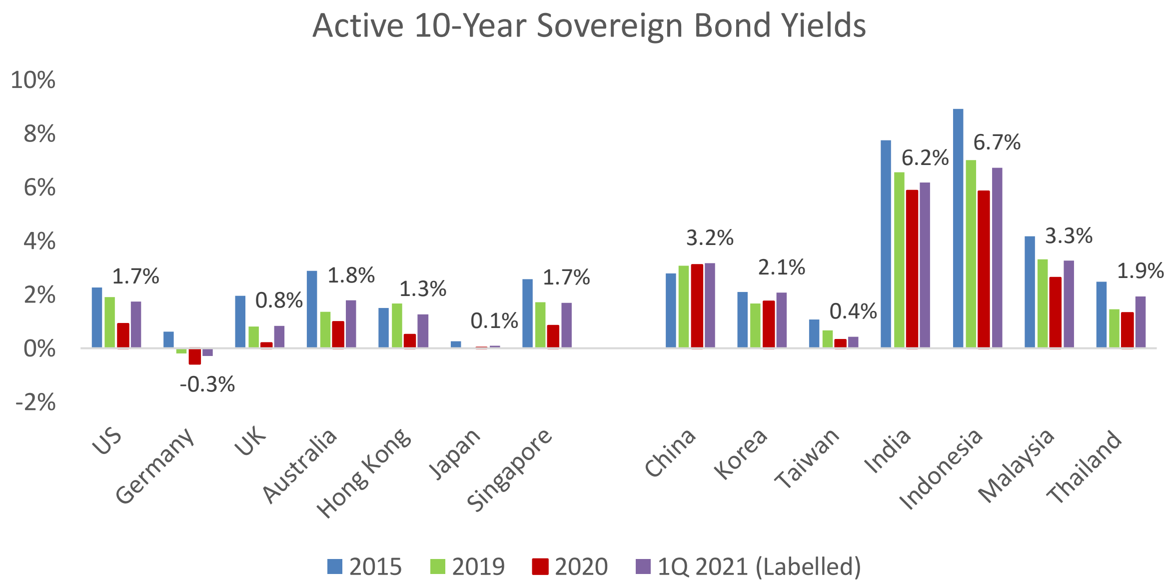
The chart above shows levels of confidence not seen since the early 1980s. Significantly, we think, they are approaching levels that were seen with higher frequency through the 1950s and 1960s. Are we moving back to a world in which the prevailing economic framework was markedly different from that which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



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

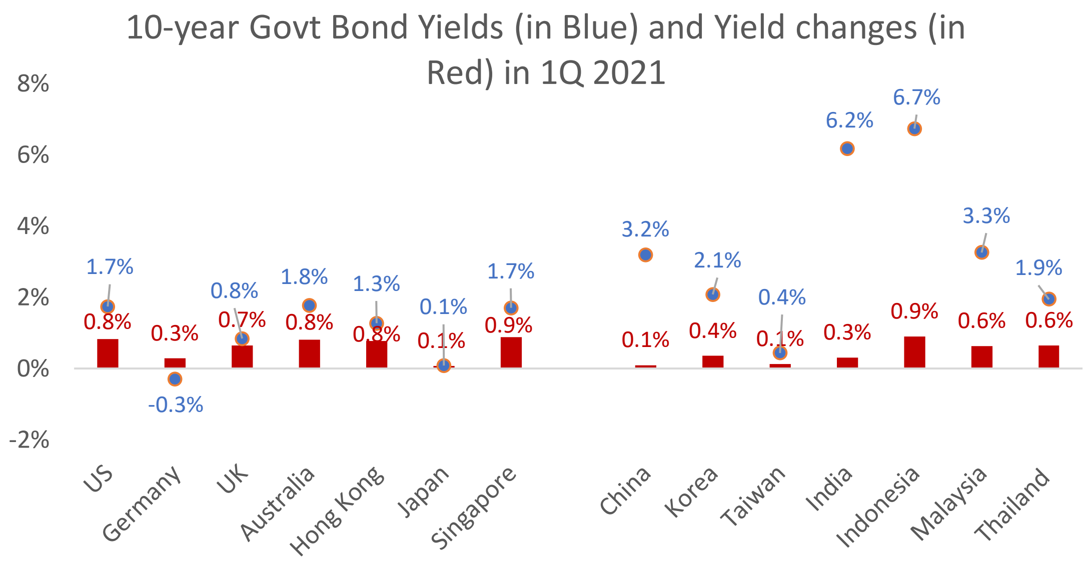
The inflation risks posited by this chart are not so clear cut. The correlation between to the two series, higher Business prices, followed by a rise in Producer prices of finished goods 6 months later, has a correlation of 0.63 (if the correlation were 1, the two series would move together in the same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

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



Source: Bloomberg. Data as of 31 March 2021

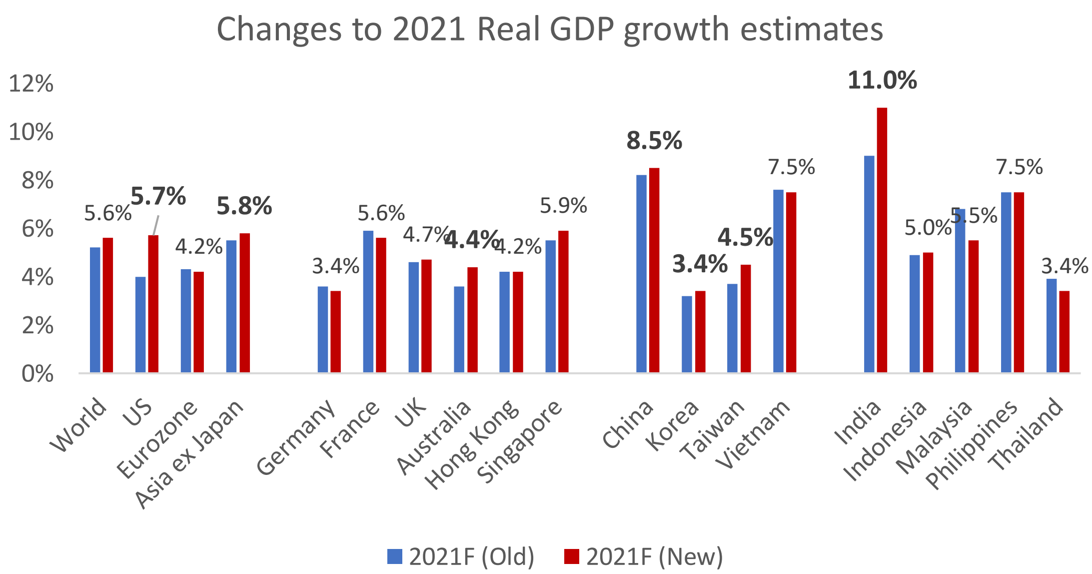
The main bond yield moves have been in developed markets. The US 10-year government yield has increased by 0.83% which is, as the chart below shows, not much at first glance but when placed in the context of the absolute yield the move represents a near-doubling of government borrowing costs since the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



Source: Bloomberg. Data as of March 31 2021

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

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



Source: Bloomberg. Estimates as of April 5 2021.

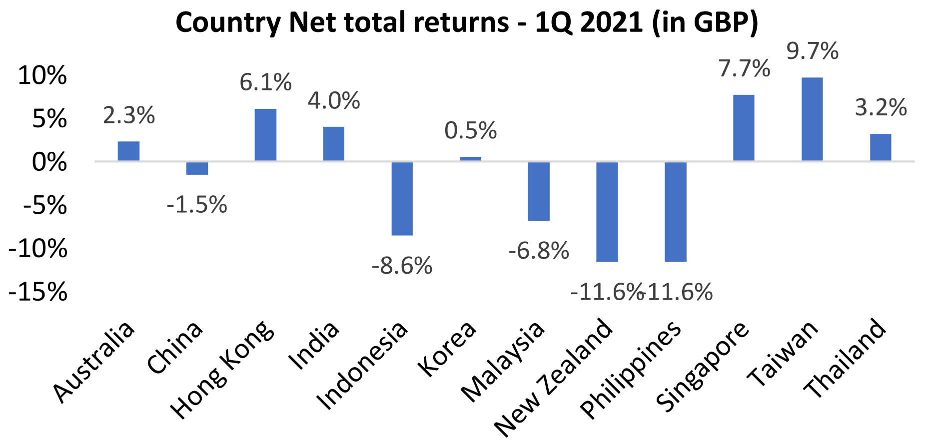
Trade growth has probably been the most important driver of growth so far this year. The timing of Chinese New Year holidays tends to distort the picture, as did disruption caused by the pandemic. However, when we take exports of the two months of the year together and compare them to the pre-pandemic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

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

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

Asian markets review

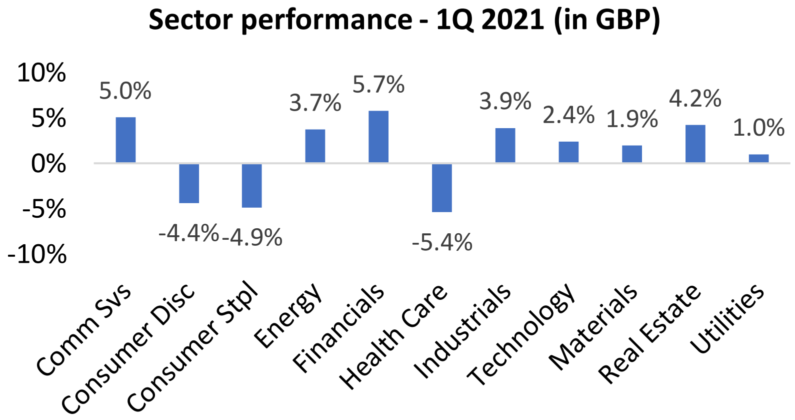
Stock markets in Asia opened strongly in 2021 and rose briskly through much of January and into February, with 17th February marking a turning point. There were two notable drawdowns during the period; the first was between 21st and 29th January when the market fell over 5% and in which the Fund outperformed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



Source: Bloomberg. Data as of March 31 2021

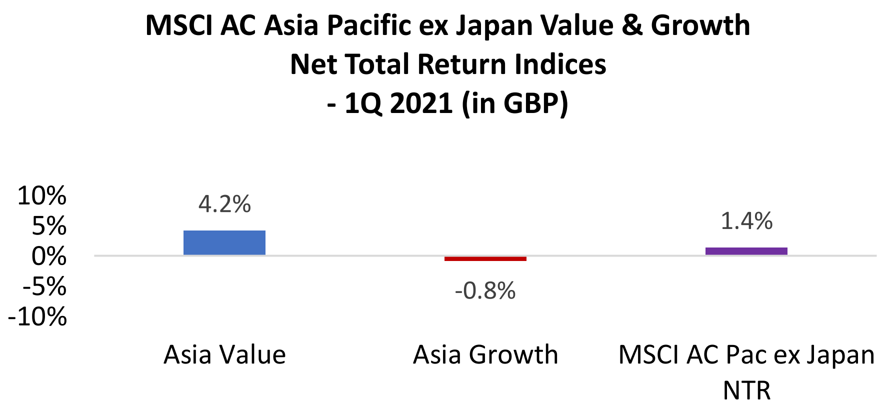
The Fund has no exposure to Indonesia, New Zealand and the Philippines. We have one Malaysian position, in Public Bank, which despite being a benchmark underperformer still rose 0.7% over the period compared to a 6.8% decline in the country index. China's underperformance against the benchmark was largely attributable to declines in Growth names such as Alibaba, Meituan and Tencent. Taiwan's outperformance has been led by the strength in technology manufacturers which, except for Taiwan Semiconductor, belong more in the Value category.

Communication Services performance was driven by telecom stocks China Mobile – which we hold – and SK Telecom, which we do not. Financials, at the benchmark level, were led by Australian and Korean banks to which we have no exposure. However, at the stock level, we held the right names in China, Hong Kong, Singapore, and in US/Japan insurer Aflac. Health care was a notable underperformer during the quarter, having done so well last year. In 2020, our healthcare stocks underperformed the sector and the benchmark; but add the performance in the first quarter of 2021 and both stocks are now ahead from the beginning of 2020 to date.



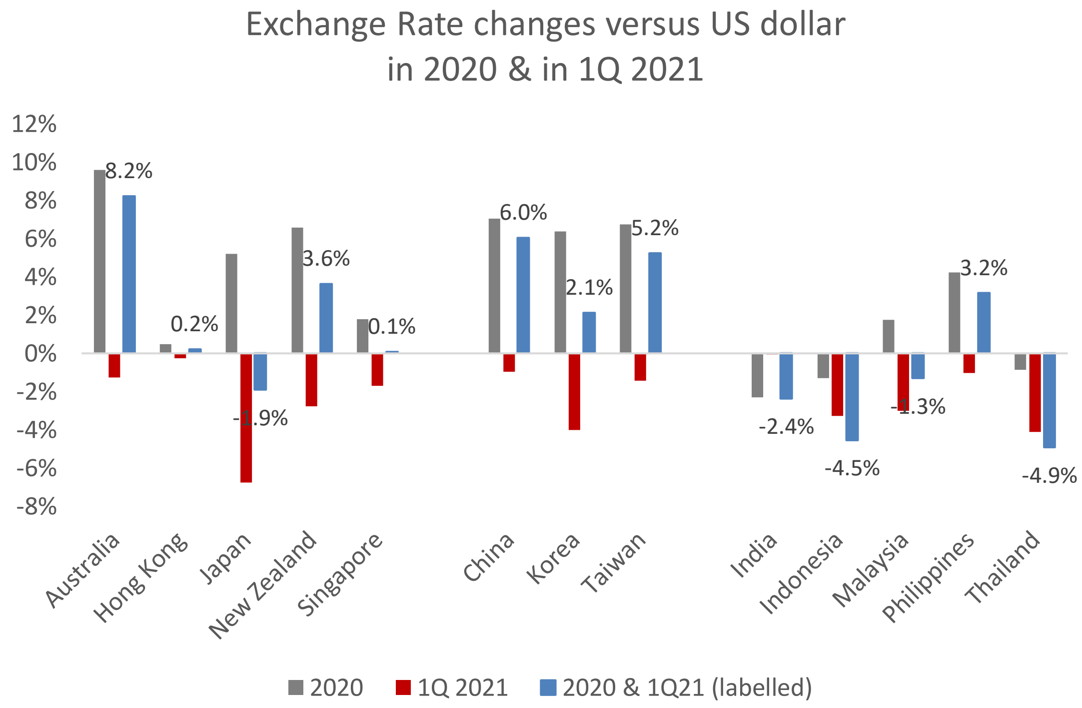
Source: Bloomberg. Data as of March 31 2021

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



Source: Bloomberg. Data as of March 31 2021

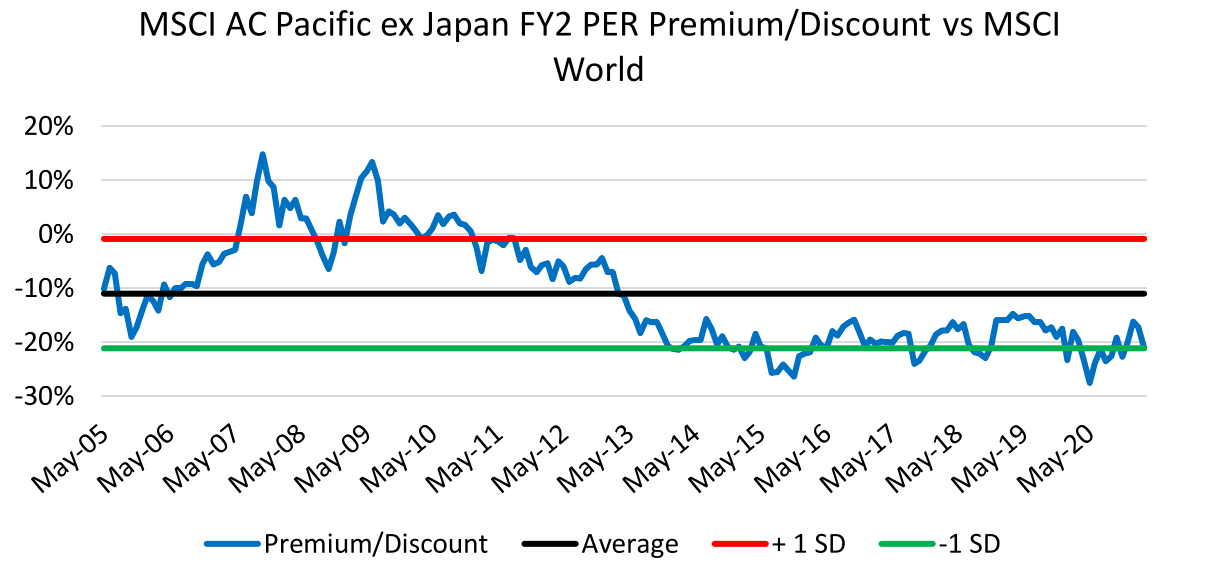
Asian currencies were generally weaker against the dollar during the first quarter. To some extent this can be attributed to a narrowing of the interest rate differential between the US and Asia. This can be observed in the chart above, on page 8, showing changes in government yields this quarter. Emerging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



Source: Bloomberg

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

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

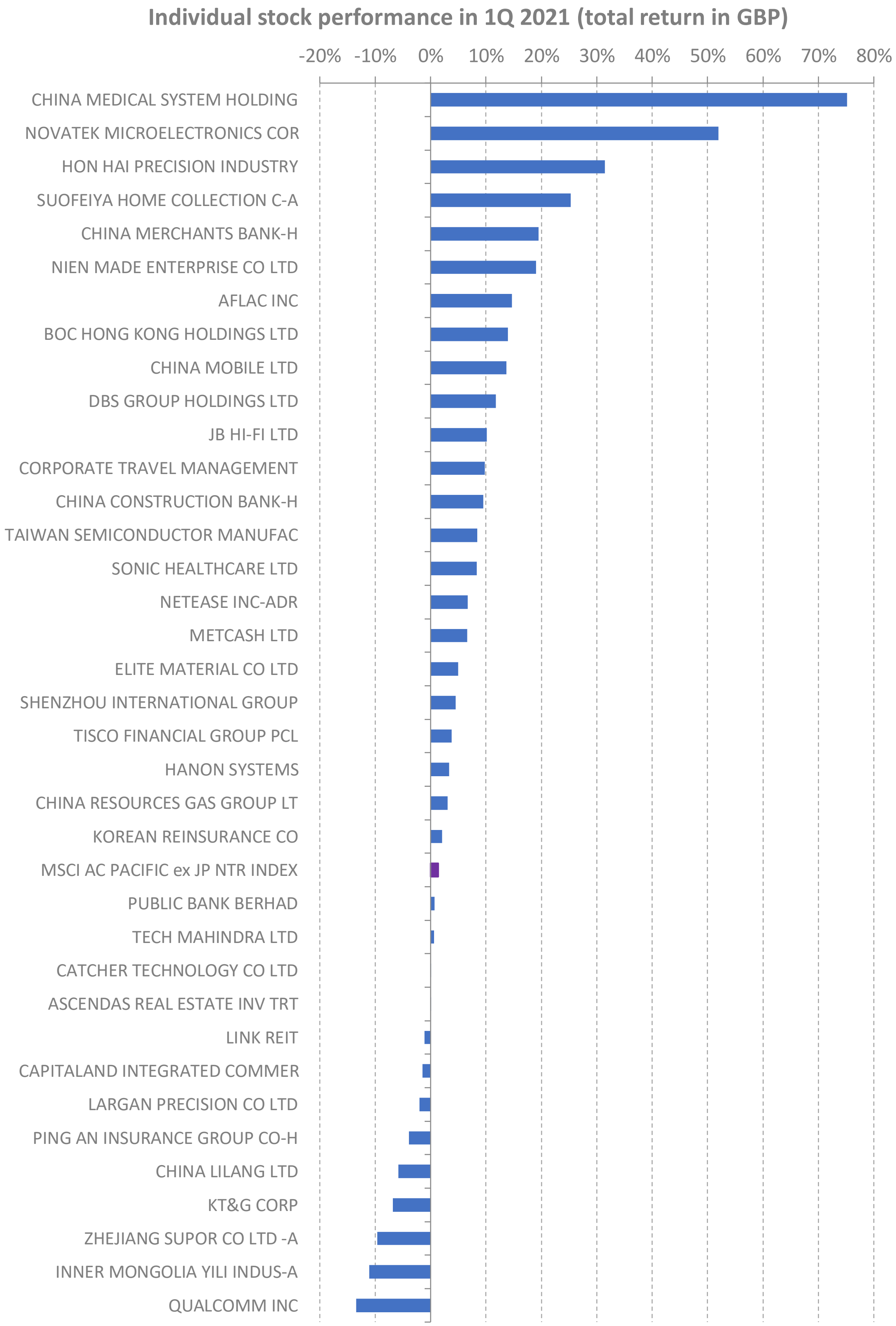


Sources: Bloomberg consensus earnings estimates, MSCI, Guinness Asset Management. Data as of March 31 2021

Stocks review

Performance

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



Sources: Bloomberg, Guinness Asset Management. Data as of March 31 2021.

Portfolio performance through the quarter was not attributable to a single name. Twenty-three out of our thirty-six holdings outperformed. We were pleased that there were no great thematic influences on the portfolio, other than the market's move away from Growth stocks. Among the top 10 performers, apart from China Medical System, were:

- 2 Taiwanese electronics manufacturers, Novatek Microelectronics and Hon Hai Precision, which have both exceeded market expectations in volumes, pricing and margins.

- 3 banks, BOC Hong Kong, DBS and China Merchants Bank which in the case of the first two are perceived beneficiaries of a steepening yield curve enabling higher pricing for their loans and in the case of all three, much improved asset quality measures than the market expected.

- 2 consumer companies, Suofeiya Home Collection – which is a China A share and operates only in China – and Nien Made Enterprises, a Taiwanese maker of shutters and blinds operating around the world.

- 1 insurer, Aflac, which is listed in the US but derives 70% of its business offering bolt-on health cover in Japan.

- 1 telecommunications business, China Mobile, whose business has returned to growth in the last two years as data revenues associated with its growing 5G customer base offset the decline in Voice revenue.

Decliners during the quarter include Qualcomm which performed strongly last year and pulled back along with many US-listed technology businesses, but whose operations are underpinned, we think, by strong ongoing demand for its processors in handheld consumer electronics devices and is a play on growing uptake of 5G mobile telecom services.

Inner Mongolia Yili (a dairy-food business) and Zhejiang Supor Cookware are the two other Chinese A shares owned by the Fund. Again, they have performed well since purchase last year but pulled back along with the decline in the A share market. Supor reported accelerating profit growth but was still a little below market expectations; nevertheless, the direction of travel is still positive in our view.

KT&G has drifted lower in recent weeks. The company is about to report results for the first quarter of 2021 and we hope to see a continuation of revenue growth, especially in its exports markets, an in profit growth that we saw at the end of last year. The company is one of our higher yielders growing its dividend by 9% last year and by an average of 7% per annum over the last five years.

China Lilang is still facing tough operating conditions in its business and reported a 30% profit decline in 2020. The company has however sought to mitigate the dividend impact by raising its second-half pay-out (i.e. the proportion of earnings to be distributed) leading to a dividend decline of 13%.

Dividends

We provide below a brief comment on the twenty-eight companies that reported final, semi-annual or quarterly dividends during the period, order from highest growth to lowest:

- **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.
- **China Medical System** increased its final dividend by 60% on the back of strong results, with 14% revenue growth and 29% net profit growth.
- **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.
- **Shenzhou International** raised its final dividend by 10% on a 3% increase in profit, making the payout ratio for the second half of the year 53.6% compared to an average 51.5% over the last two years. Management guided for a 15% increase in production capacity and held out the prospect of passing through higher raw materials prices and labour costs to customers.
- **KT&G** increased its dividend by 10% in line with recent years. The latest results for the last three months of 2020 showed a welcome increase in export sales and growth in both revenue and profit.
- **China Resources Gas** raised its dividend by 8%, following a 16% increase last year. Full year net profit rose 2%, which was made up of a 19% decline in the first half followed by a 36% rebound in second. Industrial sale volumes were the swing factor. Caps on gas prices at the city gate were offset by lower wholesale costs.
- **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.
- **China Merchants Bank** raised its dividend 4% in line with 2020 earnings compared to a 28% rise last year. Non-Performing Loans were down to 1.1%. Net interest margin was 2.56% vs 2.69% in 2019.
- **China Mobile** reported a 1.5% profit increase as 5G revenue continues to more than offset the decline in Voice revenue. The dividend was increased 2% which followed last year's 24% increase and earnings turnaround.
- **China Construction Bank** increased its dividend by 2%; the market had expected a cut. Earnings rose 3.6%. Net interest margin was 2.19% vs 2.13% for the first nine months suggesting 0.5% yield improvement on earning assets in the last 3 months of the year. Non-Performing Loans were up slightly although formation rate of new bad debts appears to be slowing.
- **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. However, the market forecasts a 10% increase in the next quarter's dividend report expected in June.
- **Nien Made Enterprise** kept its dividend unchanged. Revenue and earnings grew 3% in 2020. The company has maintained its target to increase capacity by 10%-15% on solid order visibility. It is also reporting stronger growth in average selling prices for custom-made products, which it will need as raw materials prices have also picked up.

- **Hon Hai Precision** reported weaker results for the fourth quarter of 2020, with lower margins due to smartphone product mix. The dividend fell 5%, back to 2019 levels while earnings for the full year were down 10%. The company maintained a positive stance on its Electric Vehicle related business and maintained its Gross Margin target of 7% for 2021 and 10% by 2025.
- **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.
- **China Lilang** final dividend fell 13%. The core dividend was down 10% and the special dividend was 20% below last year. Operations are challenging but improving; the second-half payout for the final dividend was increased by 10% above the normal run rate to 91%.
- **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.
- **BOC Hong Kong** reported a 20% decline in the dividend that was in line with earnings. Mark to market losses on investment property appears to have been a swing factor together with a contraction in the net interest margin in the third quarter which appears to have stabilised in the fourth quarter. Improvements in bad debt ratios and associated costs together with growth in both loans and cheap demand deposits point to a better period in 2021, we think.
- **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, but operational reports look positive, and we think that as acquisitions are absorbed 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 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.

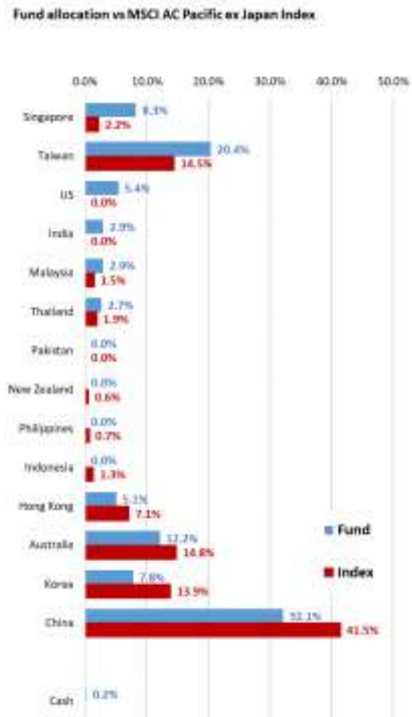
Portfolio review

Changes

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

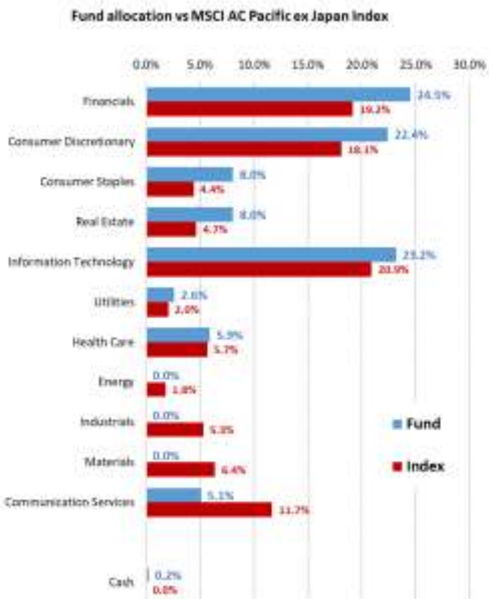
Positioning

At the end of the quarter, the main country overweight positions were in Singapore and Taiwan (India and the US are not in the benchmark); the main underweight positions were to China and Korea.



Sources: MSCI, Bloomberg, Guinness Asset Management. Data as of March 31 2021

On a sector basis, the main fund overweight positions were in Financials (made up of banks and insurers), Consumer Discretionary and Staples. The main underweight positions were in Communication Services, Materials and Industrials.



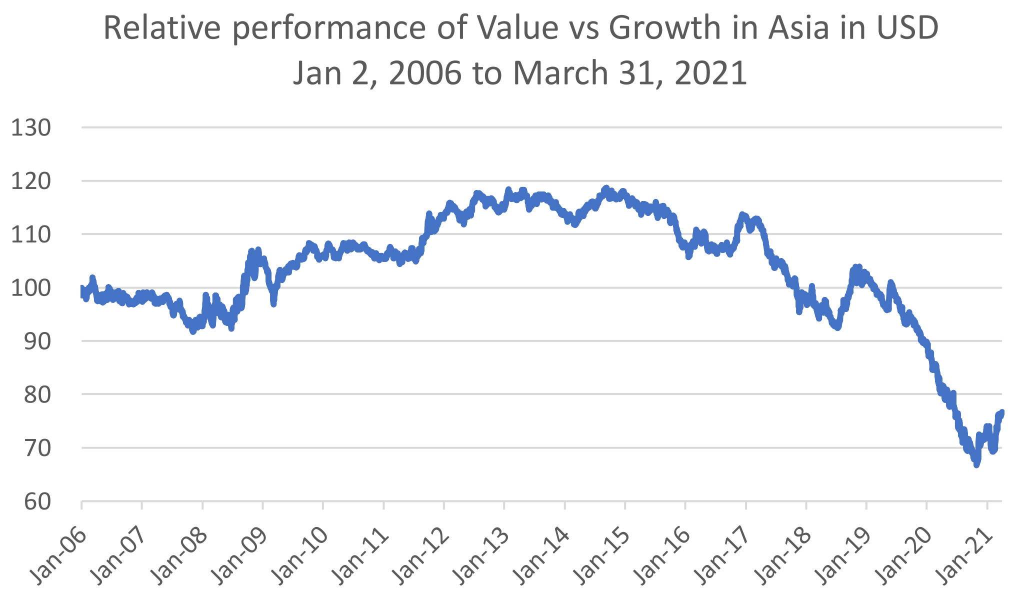
Sources: MSCI, Bloomberg, Guinness Asset Management. Data as of March 31 2021

Outlook

The change in market tempo during the quarter has been abrupt and in our view, could change again just as quickly. We should keep firmly in mind Benjamin Graham's characterisation of the market as someone who will buy from us everything we have one day, and sell back to us everything they have the next. The market has suddenly come to the view that the key risk emanating from re-emergence from the pandemic is economic overheating. Not so long ago, the discussion was about economic scarring. We can all see the uneven nature of the vaccine roll out, questions over its efficacy and the degree to which life can return to a relative level of normality in the next 12-24 months. Thus, we think we need to do the hard work of uncovering value opportunities rather than seeking to position for a trend which could reverse sharply at any moment.

We believe our approach is well-suited to the uncertainties that lie ahead. We focus on companies with superior pricing power and are thus well-placed we think to deal with the possibility of rising costs and rising inflation; we focus on companies with strong cash generation today that allows management the scope to re-invest, to grow the business and to grow the cash flows to support a growing dividend stream; and we look for those companies with a strong capital base with low debt which could otherwise increase the financial burden on the business if interest rates were to rise.

Growth investing has been the dominant investment style in recent years, but of course it has not always been so. The chart below shows the relative performance of Value versus Growth in Asia since 2006. Between 2008 and 2015, Value enjoyed a good run over Growth. Since then, Value's fall from favour has been precipitous.



Source: Bloomberg, Guinness Asset Management

There are signs we think that things may be changing back. The valuation gap between the two has widened significantly. Our Fund trades on a 20% PE discount to the market based on FY1 consensus estimated earnings and at a 16% discount on FY2 estimate earnings. We also think it is likely that continual central bank support and low interest rates which shaped the investment backdrop in recent years may now become less influential. This strategy does not tend to outperform in steadily rising markets. but we expect it to do well when markets are weak or changeable. This quarter's relative performance reflects that expectation and has been some of the strongest we have seen since the Growth style went into the ascendant.

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*

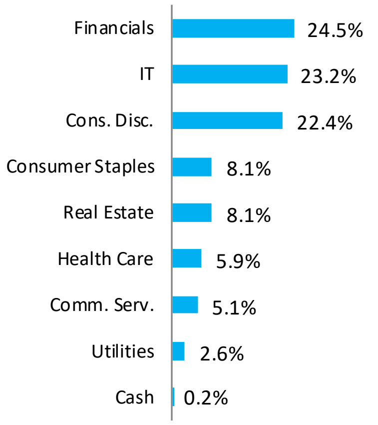
PORTFOLIO

31/03/2021

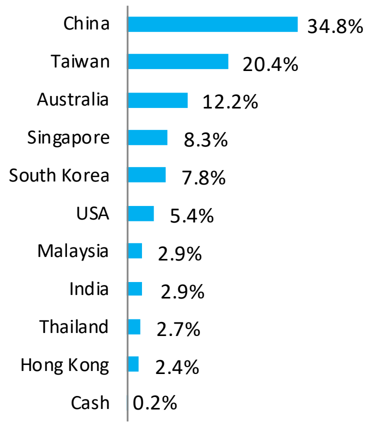
Fund top 10 holdings

Novatek Microelectronics	3.6%
Hon Hai Precision Industry	3.5%
Sonic Healthcare	3.3%
Hanon Systems	3.1%
Suofeiya Home Collection	3.0%
JB Hi-fi	3.0%
China Merchants Bank	3.0%
Corporate Travel Management	3.0%
Public Bank Bhd	2.9%
Capitamall Trust	2.9%
% of Fund in top 10	31.3%
Total number of stocks in Fund	36

Sector analysis



Geographic allocation



PERFORMANCE

31/03/2021

Discrete years % total return (GBP)	Mar '21	Mar '20	Mar '19	Mar '18	Mar '17
Fund (Y class, 0.89% OCF)	42.7	-17.7	3.6	7.6	35.2
MSCI AC Pacific ex Japan Index	41.2	-9.3	3.0	8.5	35.8
IA Asia Pacific ex Japan	48.5	-11.3	3.1	7.3	35.1

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.89% OCF)	4.2	8.0	42.7	21.6	77.0	122.0
MSCI AC Pacific ex Japan Index	-1.2	1.5	41.2	31.9	94.4	112.1
IA Asia Pacific ex Japan	-0.2	3.5	48.5	35.8	96.9	118.5

Annualised % total return from launch (GBP)

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

31/03/2021	Index	Sector	Fund
Alpha	0	1.41	2.20
Beta	1	0.90	0.87
Information ratio	0	0.11	0.13
Maximum drawdown	-26.36	-24.54	-24.84
R squared	1	0.95	0.84
Sharpe ratio	0.47	0.54	0.56
Tracking error	0	3.51	6.21
Volatility	15.53	14.26	14.72

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, 0.89% OCF). ***Please note: As of 1st April 2021, the Y class OCF has reduced from 0.99% to 0.89%.*** 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
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.