Guinness Asian Equity Income Fund

Investment Commentary - October 2022

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

ABOUT THE FUND

Launch	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 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.

30/09/2022	1 Yr	3 Yrs	5 Yrs	Launch*
Fund (%)	-3.4	6.2	15.7	106.8
Index (%)	-14.5	1.3	10.0	71.9
Sector (%)	-10.5	11.7	22.6	92.4

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

In September, the Fund fell -7.4% (Class Y in GBP), which was 2.3% better than the MSCI AC Pacific ex Japan Net Total Return Index benchmark, which fell -9.9%. Over the third quarter, the Fund was down -7.4%, a little less than the benchmark, which fell -7.9%.

Over the year to date the Fund has fallen -10.3% but is 3.1% ahead of the benchmark, which has fallen -13.4%.

A relatively dovish outlook on interest rates from the US Federal Reserve at the end of July did not hold and was already giving way at the end of August before the Federal Reserve reiterated its commitment to raising interest rates for as long, and by as much, as necessary to bring inflation back toward its long-term target of around 2%. The immediate reaction was to push interest rate expectations higher and for the peak to be further away. At the end of July, when markets were looking more positively at the outlook, the market expectation as gauged by Fed Funds futures was for a peak of 3.3% in December this year. At the end of September, the expected peak had moved to 4.5% in March 2023, with a shallower decline thereafter. This sharp change in view resulted in a significant pick-up in market volatility and performance leadership swinging from Value to Growth and back again.

For inflation to come down to the Federal Reserve's target in a meaningfully short period (say the next 12 months) we would need to see month-on-month (MoM) changes in inflation over the period of 0.2% or less. If they are higher than that, the problem has not gone away and we should expect interest rates to continue to climb. While headline consumer price inflation in the US rose only 0.1% MoM in August, personal consumption expenditure (PCE) rose 0.6% MoM, indicating the pressure is still on.

Guinness Asian Equity Income Fund

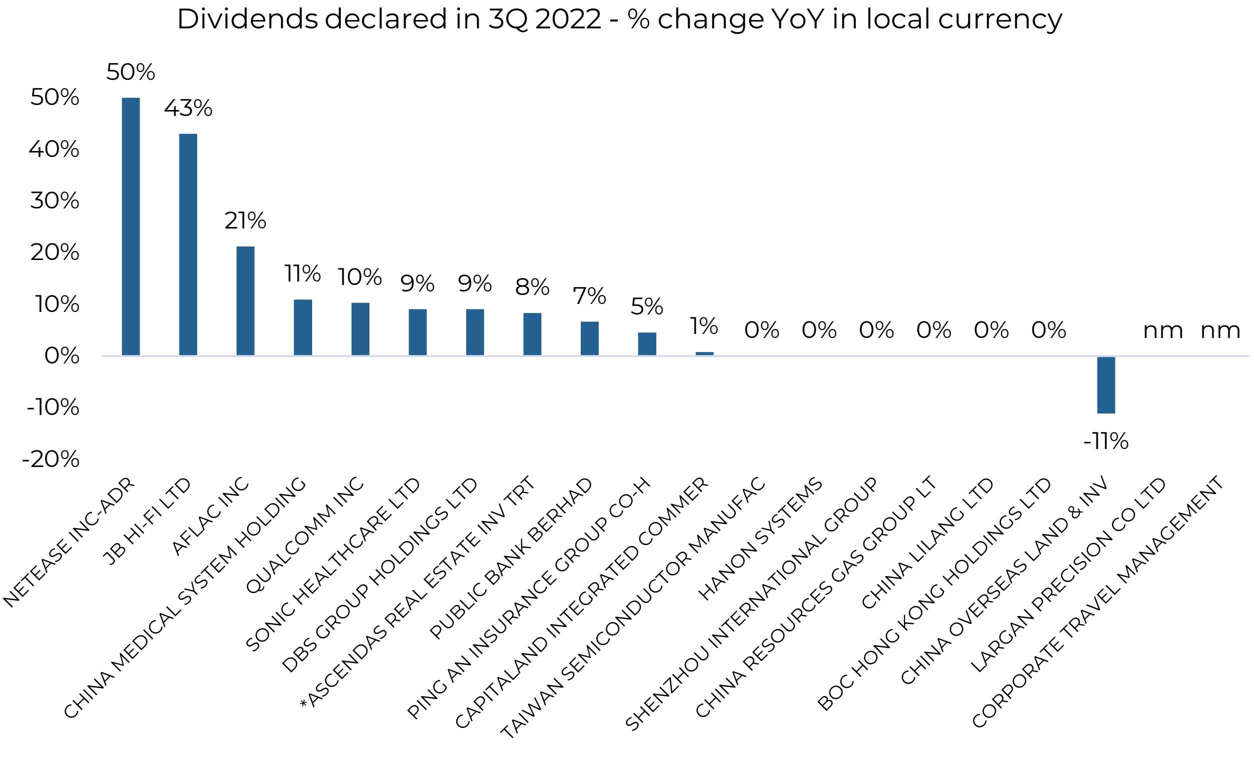
In the third quarter, Asian markets, as measured by the benchmark, lagged other regions significantly. China was the cause, with Developed Asia and Emerging Asia ex China delivering marginally negative to positive returns over the period.

	YTD	1 year	3 years	5 years	Since Launch (19/12/2013)
Guinness Asian Equity Income Fund	**-10.3%**	**-3.4%**	**6.2%**	**15.7%**	**106.8%**
MSCI AC Pacific ex Japan Index (benchmark)	-13.4%	-14.5%	1.3%	10.0%	71.9%
MSCI AC Asia Pacific ex Japan Value Index	-5.0%	-5.0%	5.3%	11.1%	64.5%
MSCI AC Asia Pacific ex Japan High Dividend Yield Index	-1.0%	1.6%	6.2%	16.5%	61.6%

Cumulative Total Return Y share class in GBP, as of 30th September 2022. Source: FE fundinfo.

FUND REVIEW

In the second half of the calendar year, 23 of the 36 portfolio companies are expected to declare dividends; the rest normally declare annually in the first half the year and pay them over the course of the year. In the third quarter, we have had reports from 20 of them. Of these, 13 could be said to have increased the dividend – 11 were higher than last year and the resumption of dividends by Corporate Travel Management and the introduction of interim dividend payments by Largan Precision makes thirteen. Six companies reported an unchanged dividend and one company, China Overseas Land & Investment reported a decline.

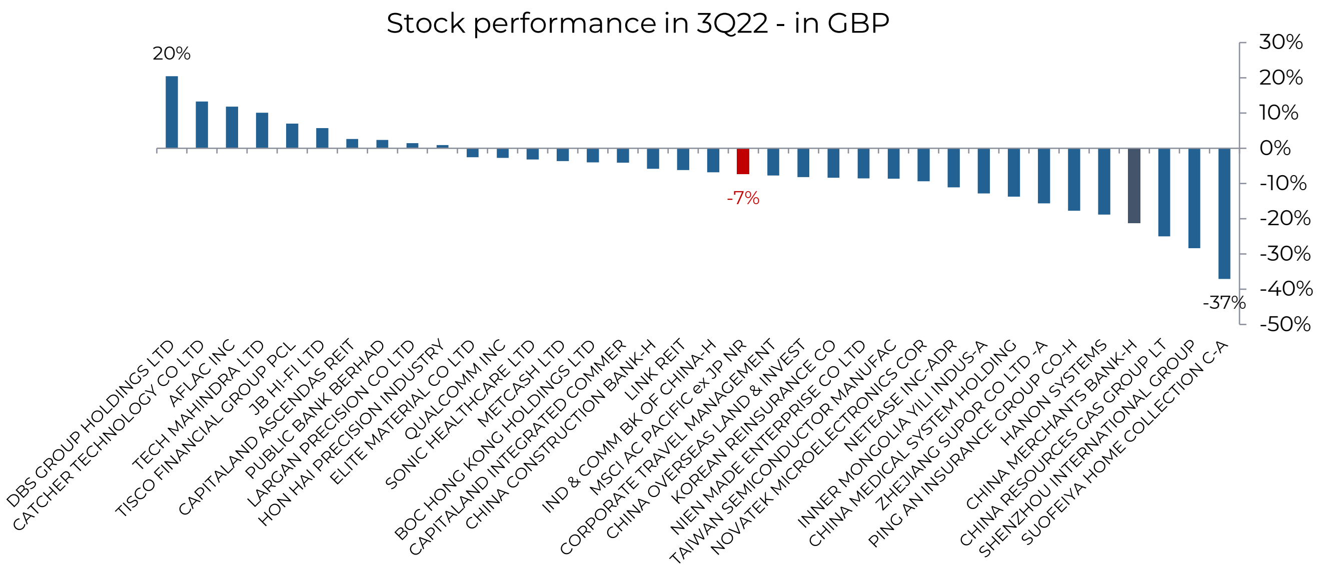


Source: Company reports

Stock performance during the quarter and during the month reflected some of the broad-based trends we are seeing in the region. Banks and financials have been outperformers while non-financial Chinese stocks have tended to underperform as the domestic economy in China remains under pressure and policy is maintained in holding pattern ahead of the party congress in in October. The technology hardware segment in Taiwan and IT services in India also had a better quarter on a relative, and in some cases absolute, basis, although we have seen the outlook darken for both processor and memory semiconductor makers in recent weeks.

Our analysis of recent reported results, either for the first half of the year or for the prior quarter in terms of sales and margins performance, was fine for the vast majority. Margin compression is evident, but this was often mitigated by revenue growth, reflecting the combination of attributes we would hope to find in quality companies. An exception was Korean Reinsurance, which has seen pressure on both new business writing and an increase in claims which has been reflected in the share price during the first half of the year.

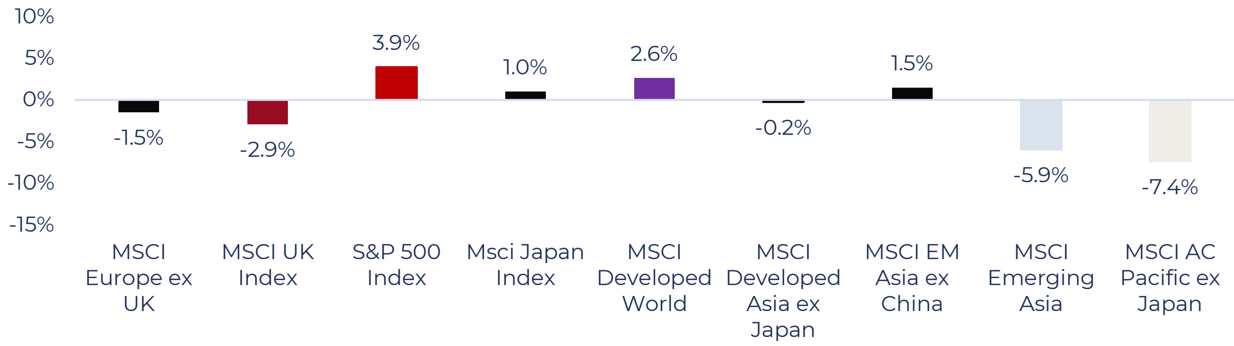
These results of course, only tell us what has been, and we face growing uncertainties ahead. The semiconductor area, as mentioned, is currently in focus, and we note reports that TSMC is now scaling back its earlier bullish capital expenditure plans with a 10% reduction in 2022 spending. While some media reports may characterise this as 'dramatic' and a warning of tough times ahead, we should remember that this is a cut from $40 billion in planned expenditure to $36 billion *this year*. The company still has its multi-year spending plan which is required to keep it in front of its peers, the kind of position that allowed it to report a 48% revenue increase in 3Q22 compared to other global players such as Samsung, Micron and AMD that are reporting revenue contractions of 16% to 30% year-on-year.



Source: Bloomberg

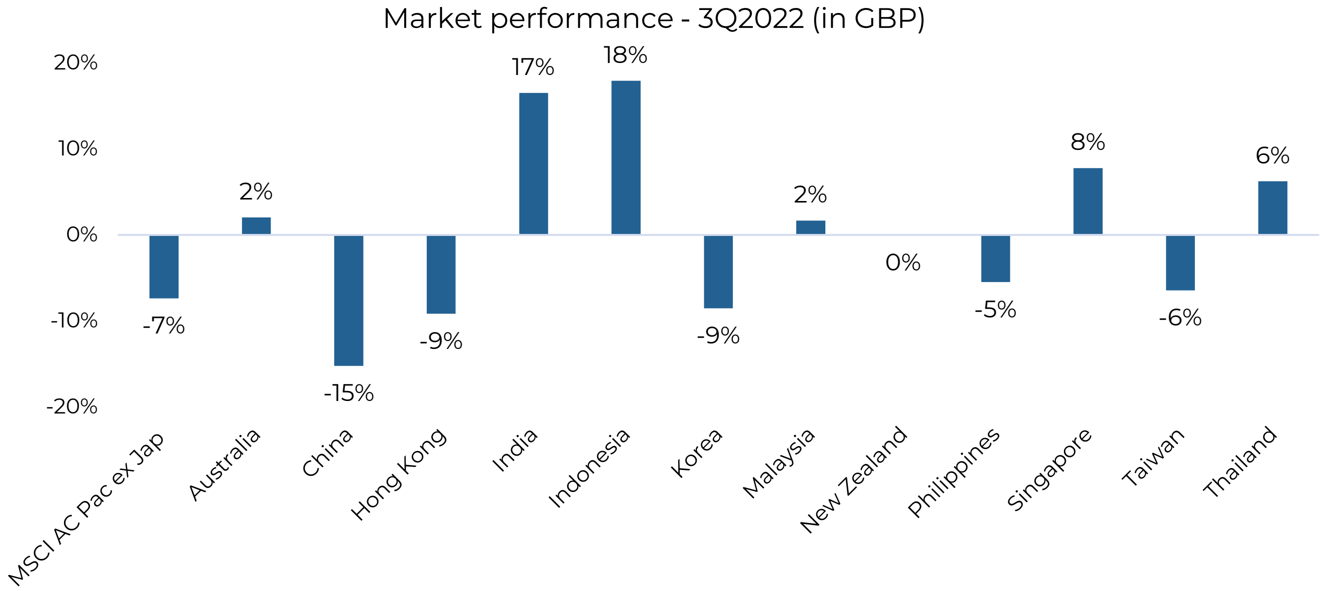
MARKET REVIEW: PERFORMANCE, VALUATIONS & EARNINGS

Asia ex-Japan was the weakest region in the third quarter but a closer reading identifies China as the primary cause.



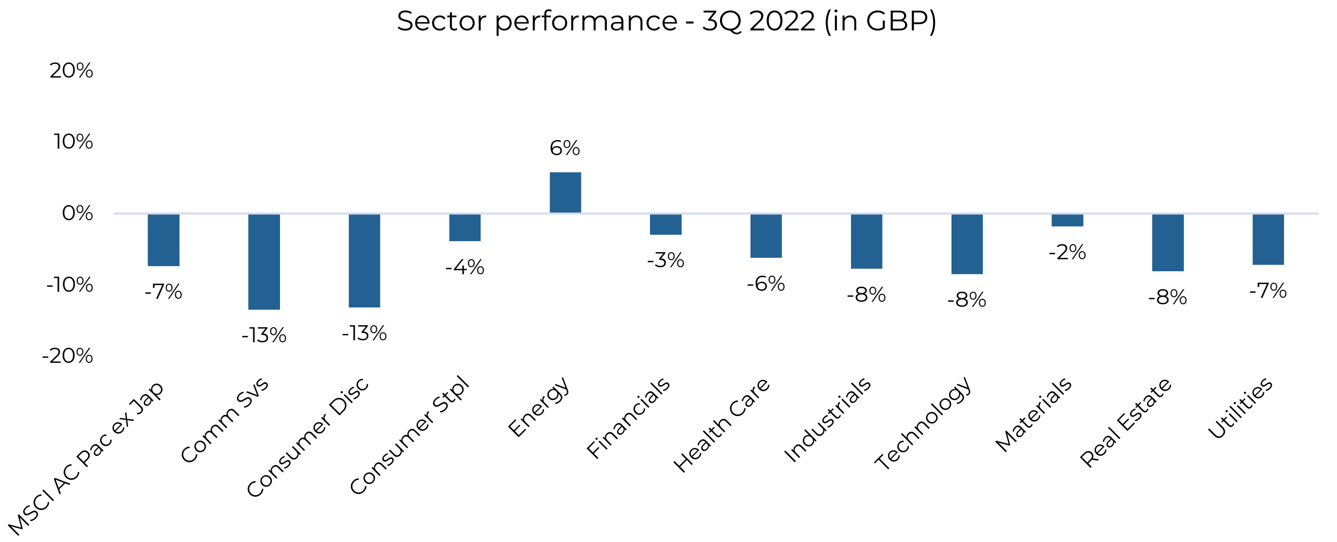
Source: Bloomberg. Figures are net returns in GBP, 30 June to 30 September 2022

The chart below shows the performance of markets in the Asia Pacific region. India and Indonesia, in Emerging Asia, posting strong gains and the developed Asian markets of Australia, New Zealand, and Singapore showed resilience with only Hong Kong showing weakness, in line with its north Asian peer group.



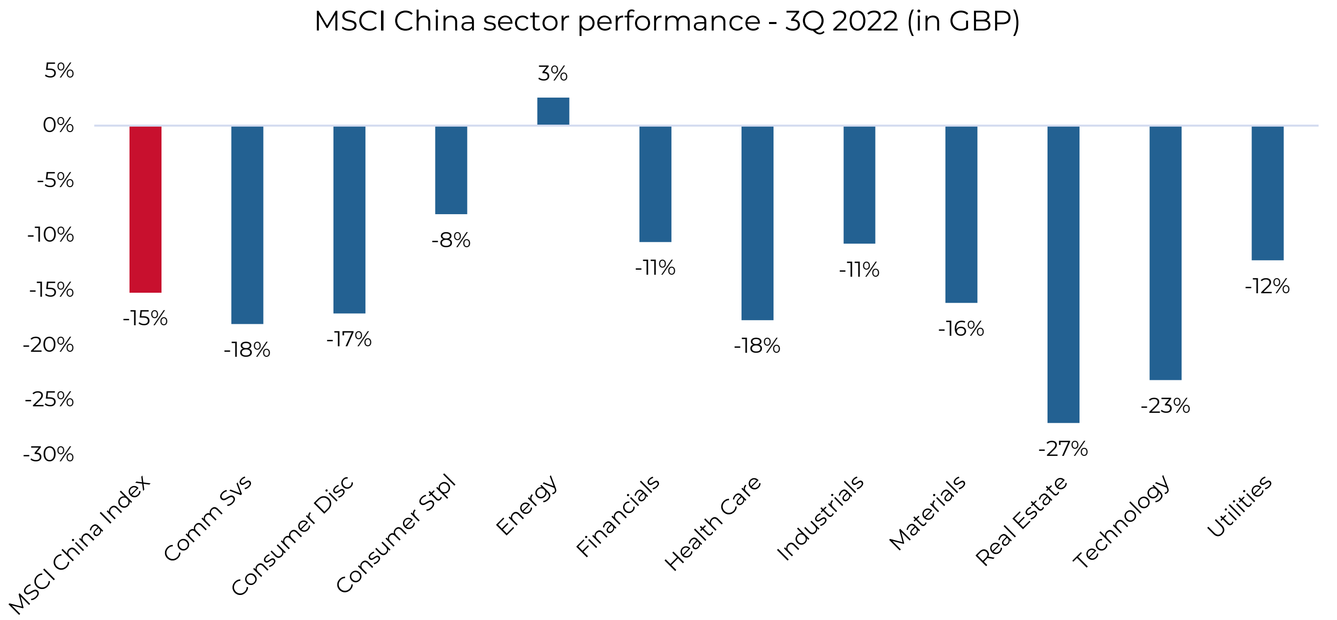
Source: Bloomberg. Figures are net returns in GBP, 30 June to 30 September 2022

Sector performance across the region was broad-based but with China the dominant factor in most segments, especially in the Communication Services and Consumer Discretionary sectors, a look at China's performance is helpful.



Source: Bloomberg. Figures are net returns in GBP, 30 June to 30 September 2022

Weakness in China was broad-based, as shown in the chart below, with Energy the only sector to generate a positive return and relative outperformance from Consumer staples, Financials, Healthcare and Utilities:



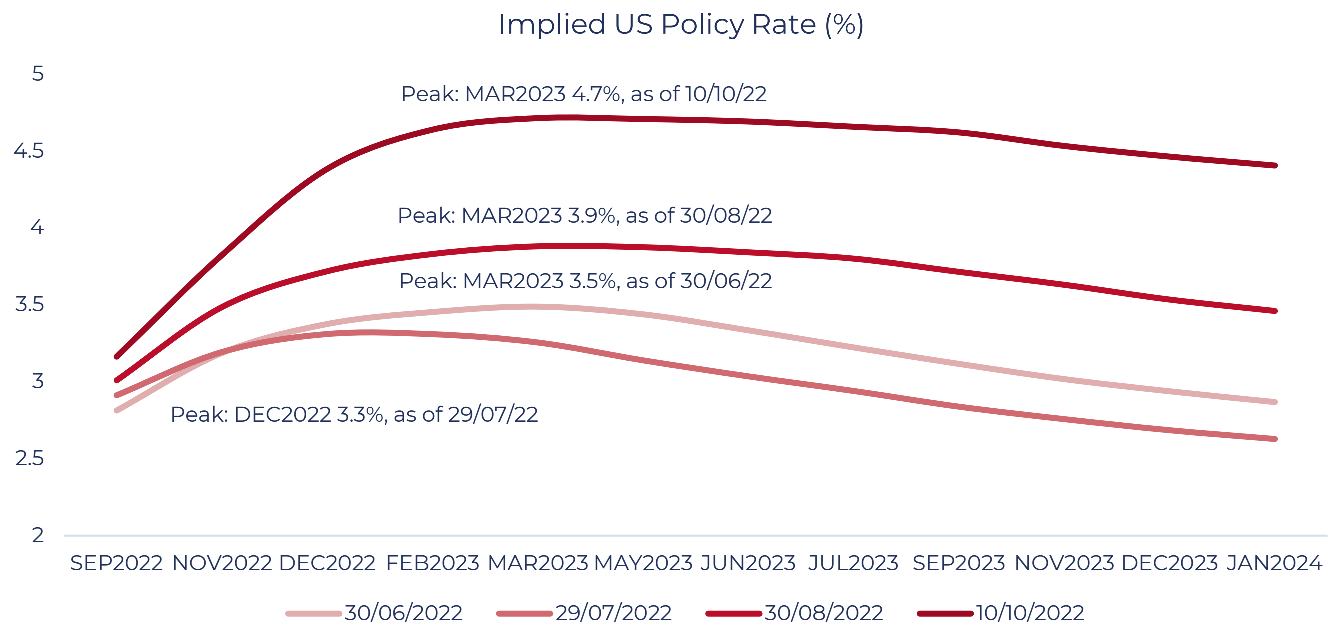
Source: Bloomberg. Figures are net returns in GBP, 30 June to 30 September 2022

China weakness was driven by the same factors that have weighed on performance for much of this year: slower housing market, indebtedness of the homebuilding sector, Covid lockdowns and slowing growth. As we have said in previous months, we do not expect to see any significant policy changes until after the Party Congress in October. In the meantime, policy remains in a holding pattern with any interim action designed to maintain stability. Examples, of such measures include the substantial liquidity injection into the banking system ahead of the golden week holiday in the first week of October (which is not unusual) and measures to keep the Yuan's decline against the dollar from turning into something worse. The Yuan touched 7.20 per dollar at the end of the month, the lowest since 2008, but since then has climbed back to 7.10 per dollar.

MACRO-ECONOMIC REVIEW

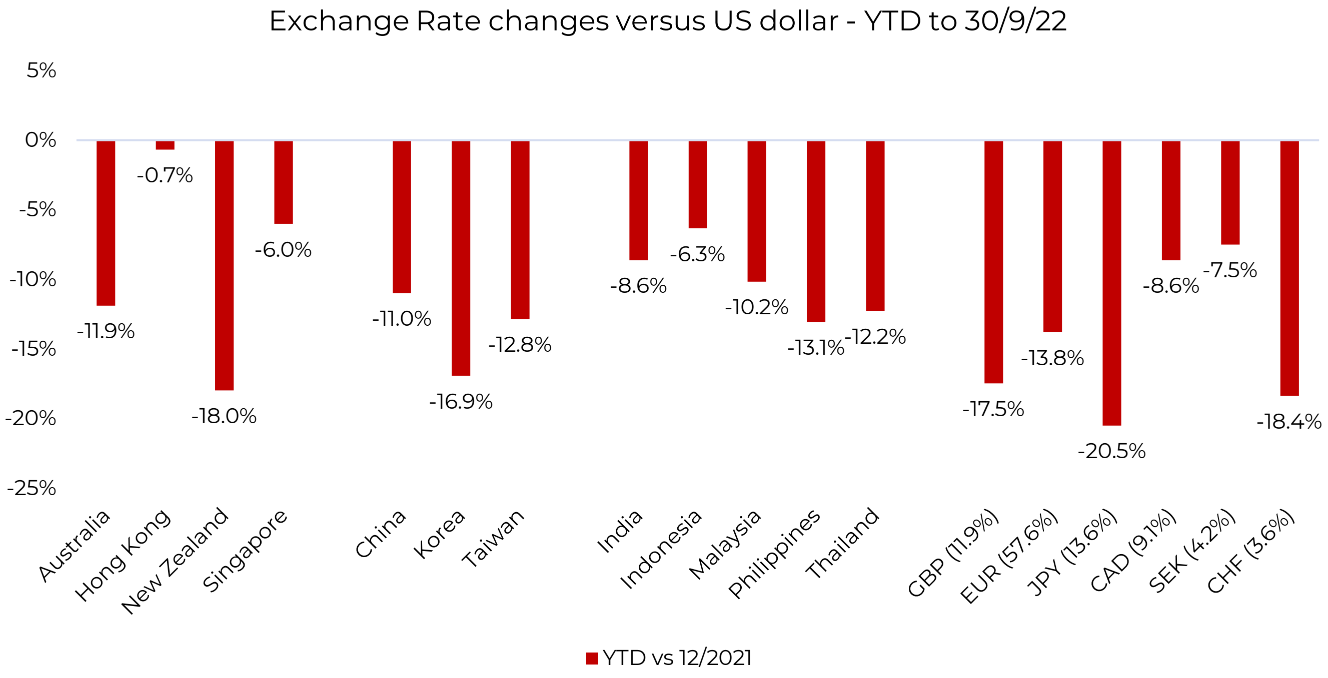
The market has had a tough time accepting the twin notions that inflation pressures remain persistent and that the Federal Reserve will stay hawkish until those pressures show a meaningful and sustained decline. The chart below shows the changes in market expectations for the trajectory of the Fed Funds target rate between now and January 2024. The curves are the rates implied by Fed Funds futures as at the dates shown.

Expectations began to turn positive in July, which prompted a recovery in growth and risk assets, but subsequent data points on both inflation and employment prompted a reversal in August followed by a significant shift higher in September following the inflation number on 13th September. Expectations for the peak level in interest rates have continued to climb since then.



Source: Bloomberg World Interest Rate Probability, based on Fed Funds futures

The effects have been clearly seen in dollar strength against both developed and emerging markets currencies but importantly there has been no evidence destabilising portfolio flows out of the region. Asian currencies have for the most part held up well and indeed have strengthened on a relative basis against the Euro and Sterling. We can see from the chart below that only Japan, Korea and New Zealand have seen their currencies weaken more than the Euro against the dollar.



Interest rates in the region began rising from the middle of the year. The two notable exceptions are China, which has marginally lowered interest rates, and Japan, which has opted to control interest rates by holding down bond yields and keeping the policy rate unchanged. Australia had been pursuing a similar policy until May. Australia's change in course brought about a recovery in its currency, while that of Japan has declined significantly and continues to weaken. Korean currency weakness, like that of China, is linked to a darker economic outlook rather than to interest rate differentials.

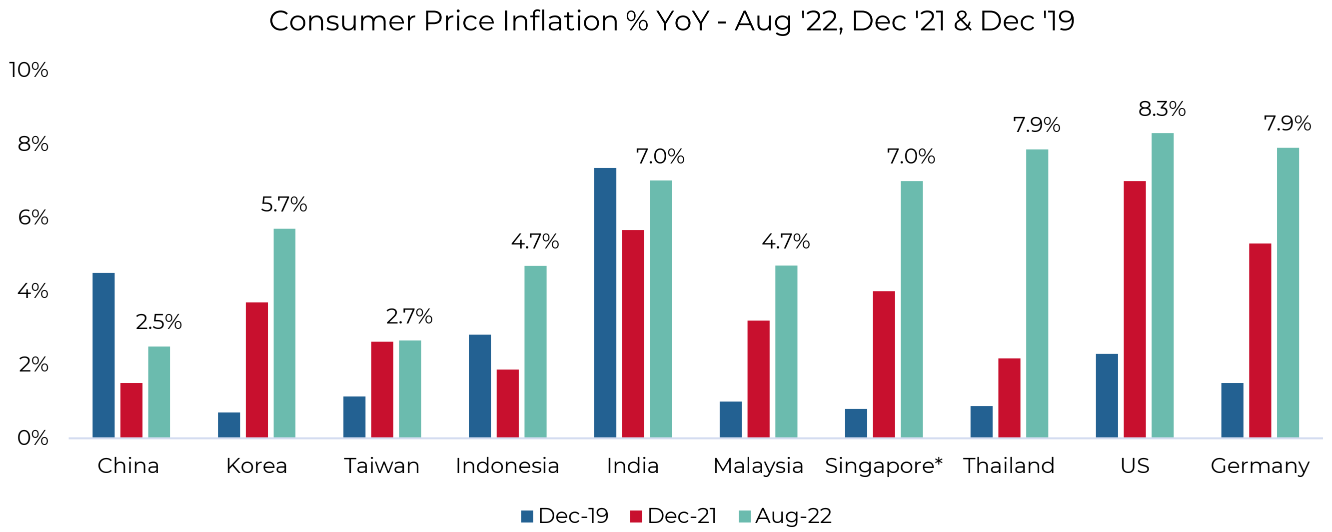
Nevertheless, the interest rate picture outlined in the table below shows a generally more benign picture when considered against the quantum of the shifts and the absolute levels. Asia as a region is not as indebted as it once was, or, more meaningfully, it is not exposed to foreign borrowings as it was. This means there are no longer the enormous mismatches between foreign currency interest payments to be made from local currency revenues that gave rise to the 1998 crisis. Current accounts across the region have been in surplus for many years and reserves have accumulated. In 2021, all of the countries in the Asian benchmark except India and Indonesia were running a current account surplus: i.e. money was flowing into, not out of, those economies.

		2022								
		Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.
East Asia	China	3.70	3.70	3.70	3.70	3.70	3.70	3.70	**3.65**	3.65
East Asia	South Korea	1.25	1.25	1.25	1.50	1.75	1.75	2.25	**2.50**	2.50
East Asia	Taiwan	1.125	1.125	1.375	1.375	1.375	1.50	1.50	1.50	**1.625**
East Asia	Japan	−0.10	−0.10	−0.10	−0.10	−0.10	−0.10	−0.10	−0.10	−0.10
Southeast Asia	Vietnam	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	**5.00**
Southeast Asia	Indonesia	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.75	**4.25**
Southeast Asia	Philippines	2.00	2.00	2.00	2.00	2.25	2.50	3.25	3.75	**4.25**
Southeast Asia	Malaysia	1.75	1.75	1.75	1.75	2.00	2.00	2.25	2.25	**2.50**
Southeast Asia	Thailand	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	**1.00**
South Asia	Pakistan	9.75	9.75	9.75	12.25	13.75	13.75	**15.00**	15.00	15.00
South Asia	India	4.00	4.00	4.00	4.00	4.40	4.90	4.90	5.40	**5.90**
Others	New Zealand	0.75	1.00	1.00	1.50	2.00	2.00	2.50	**3.00**	3.00
Others	U.S.	0.00~0.25	0.00~0.25	0.25~0.50	0.25~0.50	0.75~1.00	1.50~1.75	2.25~2.50	2.25~2.50	**3.00~3.25**
Others	Australia	0.10	0.10	0.10	0.10	0.35	0.85	1.35	1.85	**2.35**
Others	U.K.	0.25	0.50	0.75	0.75	1.00	1.25	1.25	1.75	**2.25**
Others	ECB	−0.50	−0.50	−0.50	−0.50	−0.50	−0.50	**0.00**	0.00	0.00

Central bank benchmark interest rates. Source: Nikkei Asia, 4 October 2022

In the table, the one country that looks too 'light' on interest rate moves is Thailand. Consumer price inflation in the region, as shown in the chart below, is certainly high as at the latest reading for August, but does not appear to have run away. India's inflation rate of 7% is in line with prior years; Korean inflation has run up compared to prior years but appears to have steadied in recent months, allowing the bank of Korea to hold interest rates unchanged in September.

Inflation pressures in Thailand are evident and the Bank of Thailand has sought to delay rate increases to give the economy time to recover. The Thai economy relies heavily on tourism, alongside manufacturing. Before Covid, Thailand received in a year almost 40 million visitors, whose economic multiplier effect is significant. Numbers fell to near zero in 2020/21 and it is expected that they will reach around 6-7 million this year. It is hoped that the numbers will exceed 30 million next year, and a weaker currency (the baht) would make Thailand cheaper for visitors. Nevertheless, the baht is one of the weaker currencies in the region and with interest rates at 1% and expectations for US dollar rates to move close to 5% there are concerns in Thailand that the widening differential could lead to portfolio outflows.



Source: Bloomberg

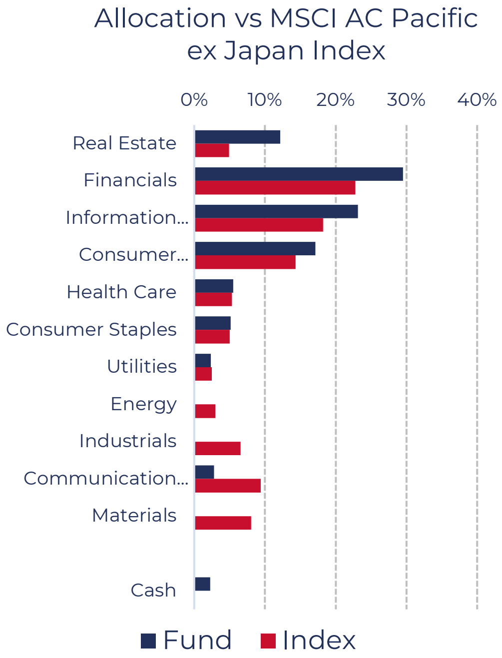
Our view is that the region looks to be economically stable, with national accounts, national debt levels and currencies showing little sign of systemic stress. The issues, therefore, are not ones of impending crisis but of slower activity. In this respect, China is the biggest factor. Inflation has come down, interest rates have been cut a little, and the currency, although weaker than the start of the year, does not appear to be under significant pressure. But the effects of China's Covid policies and the 18-month long effort to tackle leverage in the property sector (for which many had been calling) have combined to hit consumer and business confidence hard. Debt defaults among private sector developers are now routine events, and the policy focus is on supporting the physical market to ensure projects are completed and financial conditions (mortgages and down payments) are supportive to buyers.

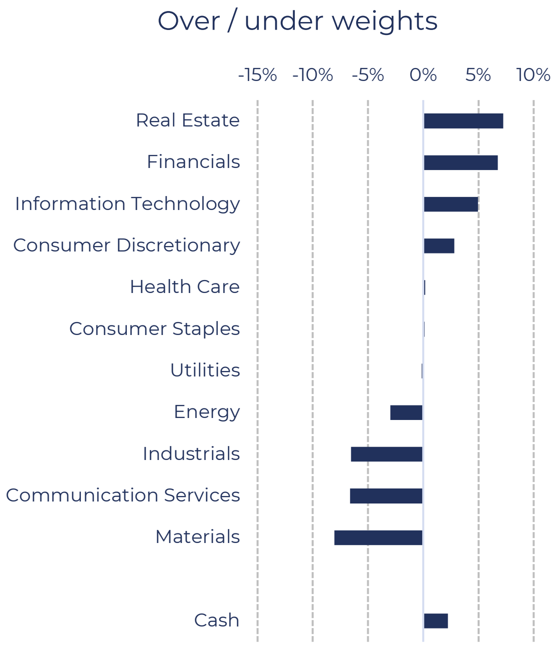
Property prices in China's biggest cities have risen a little over 2% this year, but outside that, they have been coming down. In Tier 2 cities, prices have come down 0.4% this year while prices in Tier 3 are down 2.6% and in Tier 4 cities are down closer to 5%. Property prices in most markets around the world are likely to come under pressure but it is significant for China because of the importance of property sales as the route to the resolution of the debt challenge. Tier 3 and Tier 4 cities are the areas where there is the most unsold inventory and where many of the troubled property developers are focused; and at the same time, these are also where the local authorities are most dependent upon land sales to boost municipal revenues.

We would not be so complacent to say that we are not concerned by this, but we believe there are reasons to think that concerns are probably over-discounted, because China has options. The two key challenges that China faces are the product of the policies that the government has chosen to implement and to maintain. They have the choice therefore, in how to pursue them and how long. The second point is that the financial issues that arise are primarily domestic. Foreign capital is not a meaningful part of the equation and so government, central bank and banking system are still in the driving seat. Which bring us to the final point, which is that after years trade surpluses, rising domestic wealth and financial reforms there are sufficient capital reserves and liquidity to permit a response. The risk boils down to whether there is a sudden catastrophic loss of domestic confidence prompting a mass withdrawal of capital from the system – but with China's capital account still firmly controlled, the bulk of that capital would still have to remain in China.

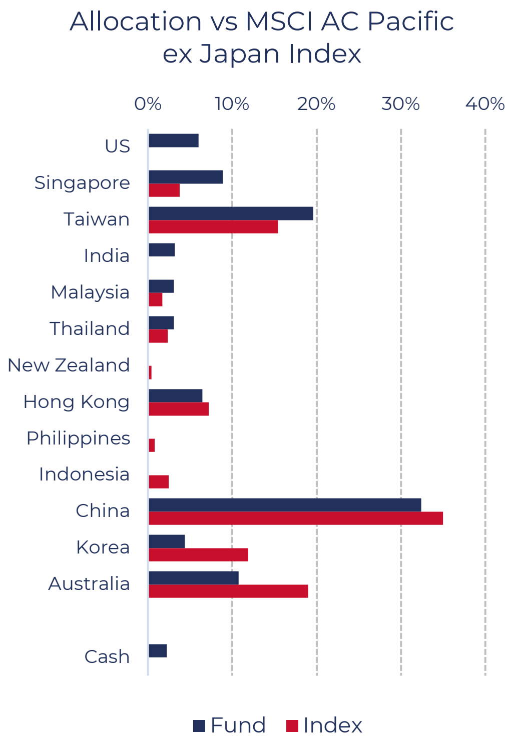
PORTFOLIO POSITION

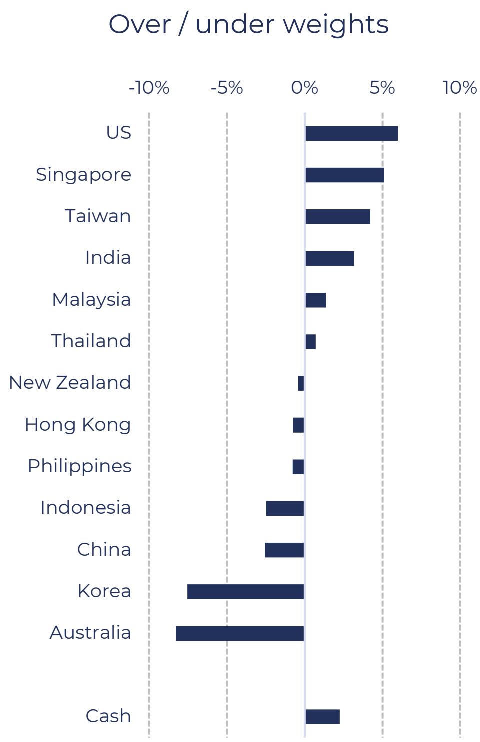
The portfolio position in terms of overweights and underweights against the benchmark is little changed from the end of the last quarter. As a reminder, the most overweight category, to Real Estate, consists of China Overseas Land & Investment, a developer, and three Real Estate Investment Trusts (REITs). The REITS are The Link, Capitaland Ascendas REIT and Capitaland Integrated Commercial Trust. The Link is listed in Hong Kong and focuses on retail, office and serviced apartments in Hong Kong and China; Ascendas focuses on industrial, logistics and datacentres in Singapore, Australia and the US; and the Integrated Commercial Trust portfolio is made up of retail and office space in Singapore.





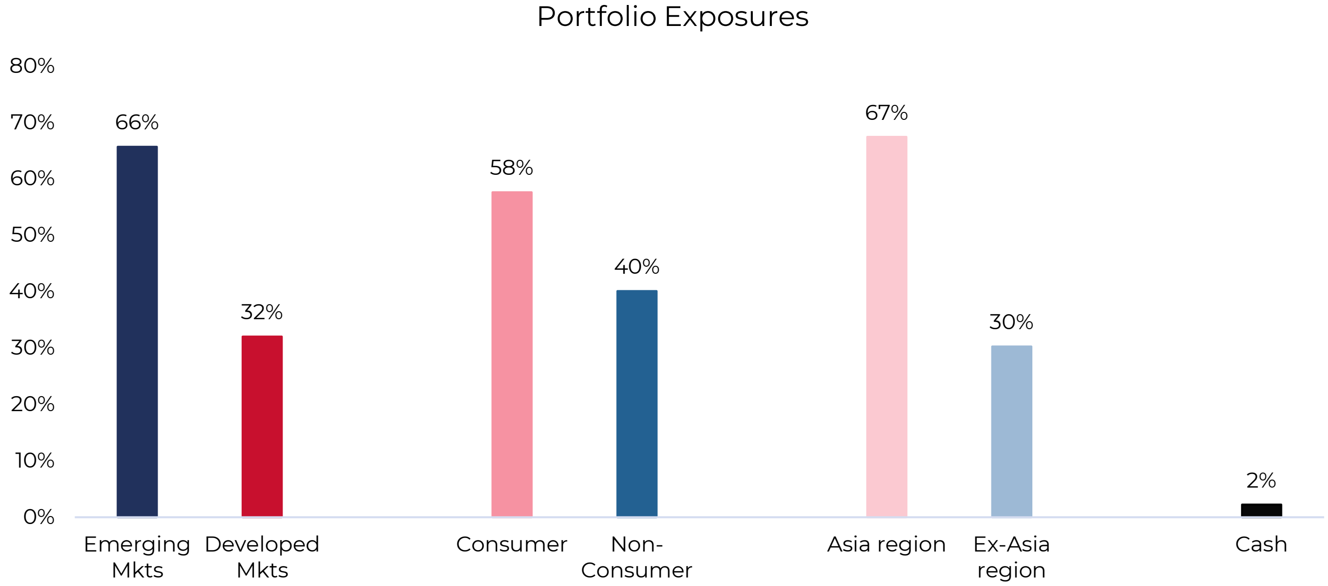
Data as of 30/09/22, source: Bloomberg, Guinness Global Investors calculations





(Data as of 30/09/22, source: Bloomberg, Guinness Global Investors calculations)

We also show the portfolio splits in terms of exposures to emerging and developed markets, to consumer and non-consumer businesses and to regionally focused businesses versus those with more external exposure.



Data as of 30/09/22, source: Bloomberg, Guinness Global Investors calculations

OUTLOOK

At a time when markets around the world have been struggling to adapt to the economic landscape, Asia has had more than its fair share of weakness. Most of that has come from China as a result of what is in essence a policy vacuum: no room to change until the political process of leadership succession is resolved. However, we think that conditions could change quite suddenly and will be fast when they do. On a global level, Asia is a creditor region while western economies overall are debtors. We think this will soon begin to matter to markets. Median economic forecasts point to GDP growth in 2023 of 5% in Asia ex Japan compared to 0.5% in US, 0.2% in the Eurozone and -02% in the UK. We think this will begin to matter too.

We also see the past development of Asia, which has seen it become not only a supplier but also a consumer, to be supportive. This evolution has created an environment characterised by slower growth than in the past, but with a higher velocity of cash flows from more diverse sources that underpin broader investment universe. The number of companies, which we deem to be of good quality, trading at highly attractive valuations has risen substantially. Our focus, as ever remains on the operational performance and outlook for our companies and we think the market once again significantly under-prices their potential, even after taking into account the challenging conditions. Today the portfolio trades on price earnings multiple of 9.2 times estimated earnings for 2022 and 8.5 times 2023 estimated earnings.

Portfolio managers

Edmund Harriss

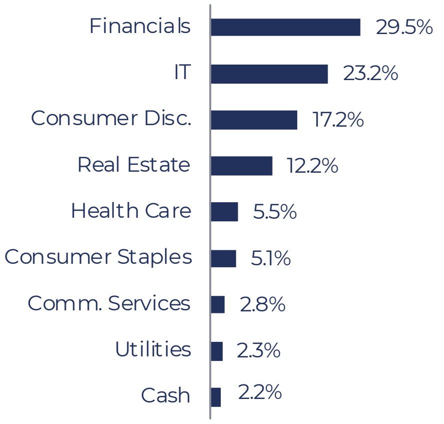
Mark Hammonds

PORTFOLIO

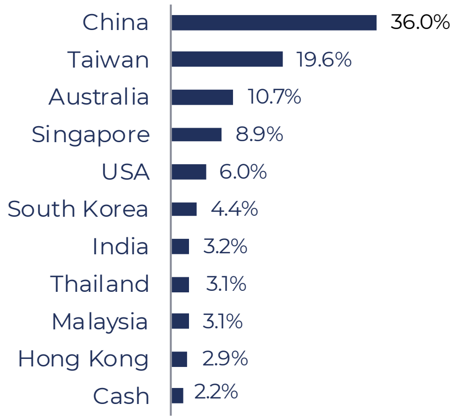
Fund top 10 holdings

China Overseas Land	3.7%
BOC Hong Kong	3.6%
DBS Group Holdings	3.3%
Aflac	3.3%
Catcher Technology	3.2%
Tech Mahindra	3.2%
Tisco Financial Foreign	3.1%
Public Bank Bhd	3.1%
Largan Precision	2.9%
Ascendas Real Estate Trust	2.9%
% of Fund in top 10	32.2%
Total number of stocks in Fund	35

Sector analysis



Geographic allocation



PERFORMANCE

Past performance does not predict future returns **30/09/2022**

Discrete 12m % total return (GBP)	Sep '22	Sep '21	Sep '20	Sep '19	Sep '18	Sep '17	Sep '16	Sep '15
Fund (Y class, 0.89% OCF)	-3.4	15.3	-4.6	2.1	6.7	15.6	35.4	3.2
MSCI AC Pacific ex Japan Index	-14.5	8.3	9.5	3.4	4.99	17.4	39.0	-9.2
IA Asia Pacific ex Japan	-10.5	15.5	8.1	5.6	3.8	15.7	36.9	-7.9

Cumulative % total return (GBP)	1 M	YTD	1 Year	3 Yrs	5 Yrs	Launch*
Fund (Y class, 0.89% OCF)	-7.4	-10.3	-3.4	6.2	15.7	106.8
MSCI AC Pacific ex Japan Index	-9.9	-13.4	-14.5	1.3	10.0	71.9
IA Asia Pacific ex Japan	-7.4	-10.2	-10.5	11.7	22.6	92.4

Annualised % total return from launch (GBP)

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

30/09/2022	Index	Sector	Fund
Alpha	0	1.94	3.25
Beta	1	0.89	0.84
Information ratio	0	0.36	0.32
Maximum drawdown	-26.36	-24.54	-24.84
R squared	1	0.95	0.81
Sharpe ratio	0.18	0.30	0.36
Tracking error	0	3.57	6.75
Volatility	15.31	13.90	14.28

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.

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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
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Telephone calls will be recorded and monitored