GUINNESS

Asian Equity Income Fund

Three years of investing in Asian equity income

Edmund Harriss, Mark Hammonds & Sharukh Malik

1 Introduction

We are pleased to bring you a review of the first three years of the Guinness Asian Equity Income Fund which was launched on 19th December 2013. Asia is home to almost one third of the world's population and its economies are underpinned by resources production, export manufacturing and growing private consumption. The success of Asian industry over the past 25 years is evident in the quality and range of goods now produced there, in the growth in household incomes, the physical development of the cities and infrastructure and in the fact that the region is a net creditor to the rest of the world. Over $6 trillion is held by Asian central banks as foreign exchange reserves out a total of $11 trillion worldwide (IMF data as at September 2016).

The Asian investment story and opportunity offered by growing regional wealth and standards of living is compelling. From cars and ships to computers, furniture and apparel Asia is fully integrated into the production network of goods that we handle every day. However, investors are rightly cautious because the gap between investment concept and the investment requirement of a financial return needs to be bridged. In a developing economic world fast growth can often be dislocated growth and it is all too easy to fall between the gaps.

The Fund is designed to address these risks by imposing strict parameters on the types of business we will invest in and how we assemble them in a portfolio. We look for good businesses whose quality is defined in terms of their operating financial returns over time. We want to buy shares in those whose market valuations underestimate, in our view, the operating returns in future years and which pay a meaningful dividend that we believe reflects a commitment both to shareholders and to capital discipline.

Over the past three years this approach has been very successful in both generating returns for investors but also in reducing volatility through the portfolio's more defensive characteristics amidst what have been, and are likely to remain, uncertain global conditions.

Edmund

Edmund Harriss

Guinness Asian Equity Income team

Edmund Harriss (Fund Manager) has managed Asian Funds since 1994 both from London and Hong Kong. He worked for ten years from 1993 for Guinness Flight, which merged with Investec in 1998. He joined the Far East Investment Desk in 1994 as part of the team managing the China & Hong Kong Fund (now the Guinness Atkinson China & Hong Kong Fund, for US investors). In 1998 he moved to Hong Kong and became the Fund's lead manager.

Edmund now manages Asia funds and China & Hong Kong funds in a Dublin OEIC for Guinness Asset Management and SEC-registered funds (for US investors) for Guinness Atkinson Asset Management. Edmund graduated from Christ Church, Oxford, with a Master's degree in Management Studies and has a Bachelor's degree in History from the University of York. He is an Associate of the Society of Investment Professionals.

Mark Hammonds, CFA (Analyst) joined Guinness Asset Management as an investment analyst in September 2012. Previously he qualified as a Chartered Accountant at Ernst & Young

Sharukh Malik (Analyst) joined Guinness Asset Management as an investment analyst in October 2015. Sharukh graduated from Fitzwilliam College, University of Cambridge, in 2014 with a degree in Economics.

2 How we manage the Fund

The objective of the Fund is to deliver a combination of capital growth and income growth.

Quality: We look for good companies which we define in financial terms as those with a long track record of generating returns on capital that have been above the cost of capital. The sustained track record makes the persistence of these returns more likely.

Value: We want to invest in those companies whose share prices imply an under-estimation of that likely persistence.

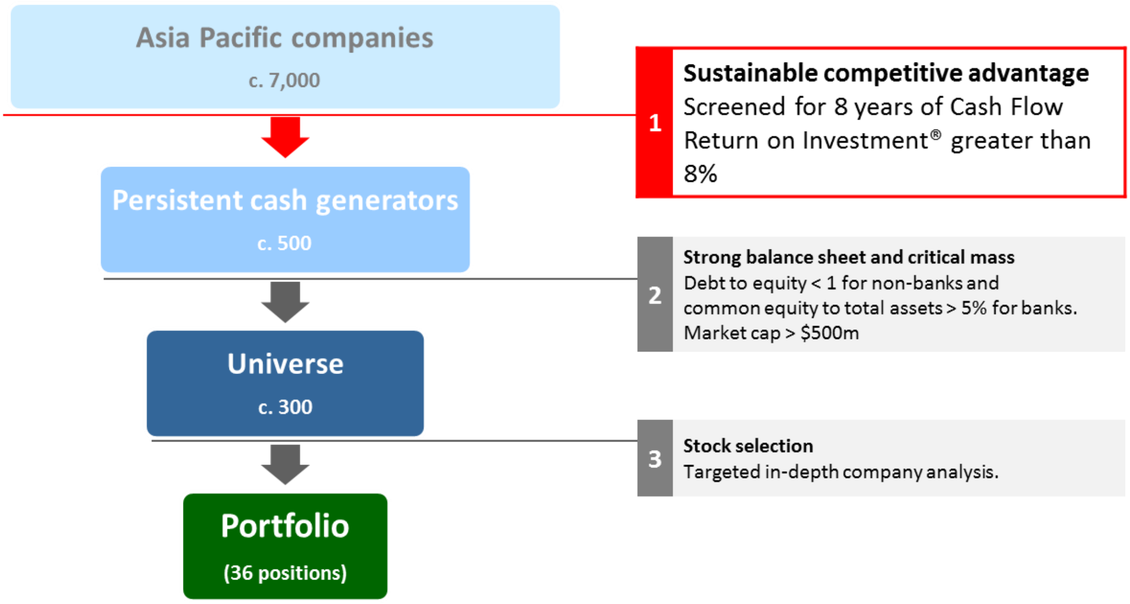
Conviction: We put these into a portfolio which is equally weighted, spread across thirty-six positions and which is rebalance from time to time as short term market movements create leaders and laggards. We consider a holding period of around 3 years at the time of purchase.

Dividend: We consider this to be both the product and driver of operational quality. The regular payment is an important component of total shareholder return and is a sign of commitment to shareholders. But it is also a manifestation of a wider commitment to capital discipline which limits company re-investment to higher return projects that should over time lead to higher cash flows, higher profits and dividend growth.

3 Defining our investment universe

A Quality business for us is one that has one or more competitive advantages that the company has converted into a return on capital of 8% (excluding the effects of inflation) for 8 consecutive years. This is a high bar and only around 2,000 companies worldwide have achieved it.

We then apply two further criteria: the ratio of debt to equity should be no greater than 1 and a company should have a market capitalisation of at least $500 million. We begin with 7,000 companies listed in the Asia Pacific region:



4 Assembling our Portfolio

The portfolio consists of thirty-six equally weighted positions; if we wish to put a new position into the portfolio then we have to sell one. We take the view that our conviction in a stock is best served by equal weighting rather than adding another layer of decision-making in deciding how much to buy. Instead, we seek to take advantage of short term market movements by taking from leaders and most importantly, adding to laggards. If we like a stock then we need to be sure to add to it in the event of market weakness. We have some hard stock parameters: a position is not allowed to exceed 4% or to fall below 2% as long as it is held in the portfolio. In the first case this constrains stock specific risk and in the latter instance this triggers a decision either to add or to sell. This prevents drift.

5 The summarised approach

The method that we apply to Asian investing draws together four strands that in combination delivers what we believe to be a robust investment proposition:

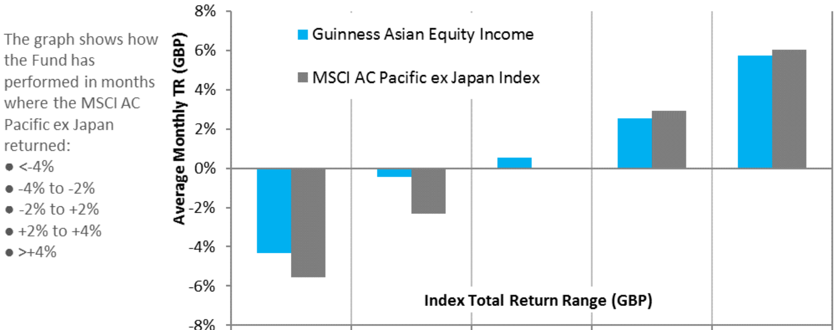
1. We define good businesses in financial terms because when we buy shares in that business the valuation and price is dependent upon those financial returns. Our unique position is that we require these returns to have been sustained over time and therefore more likely to persist. This we hope will deliver profit growth over time.

2. We buy shares that are undervalued in terms of the financial returns profile implied by the current share price. This we hope will make room for capital growth over time.

3. We buy shares that pay a meaningful dividend, yielding around 2% at the time of purchase, both because this delivers an identifiable and material income stream and because the discipline associated with maintenance of a dividend policy also often reflects a wider capital discipline that feeds back through quality and value. We hope this will deliver dividend growth over time.

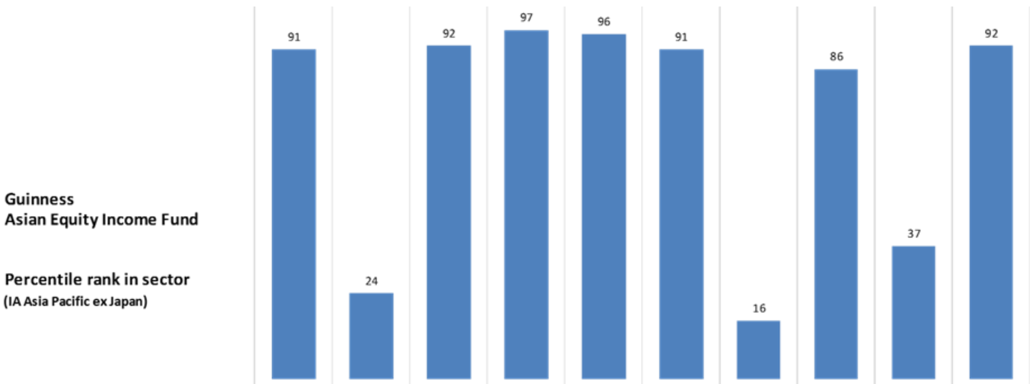
4. We add further value through equal weighting and the mechanism of portfolio rebalancing that allows us to take advantage of market fluctuations and inefficiencies. This is a methodology that makes Buy low/Sell high a structural feature.

The performance characteristics of the portfolio over the last 3 years have been very distinctive tending to outperform in weak and tentatively rising market conditions while capturing most of the gains in rising markets. The chart below shows how the Fund has performed in different market conditions:



	< -4%	-4% to -2%	-2% to 2%	2% to 4%	> 4%
Guinness Asian Equity Income	-4.3%	-0.5%	0.5%	2.5%	5.7%
MSCI AC Pacific ex Japan Index	-5.5%	-2.3%	0.0%	2.9%	6.0%
Difference	1.2%	1.9%	0.6%	-0.4%	-0.3%
Frequency	7	1	13	7	9

The profile of the fund in terms of its risk metrics too has been marked as shown in the following chart**:**

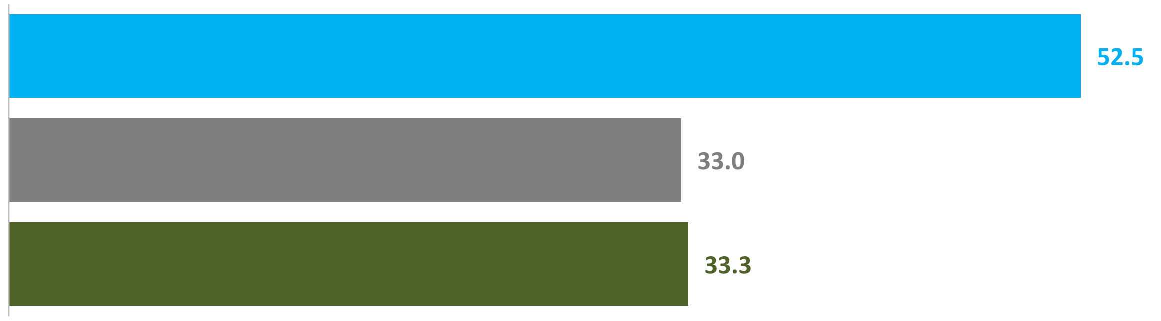


Risk and performance analysis Annualised, weekly, in GBP	Return pa (%)	Volatility (%)	Sharpe ratio	Info ratio	Sortino	Excess return	Downside risk	Max drawdown	Tracking error	Yield
Guinness Asian Equity Income Fund	15.09	14.71	0.79	0.84	0.89	5.35	13.21	-20.58	5.83	3.92
MSCI AC Pacific ex Japan Index	9.96	16.22	0.39	0	0.41	0	15.58	-26.36	0	3.04
IA Asia Pacific ex Japan sector	10.22	14.38	0.46	0.06	0.50	0.28	13.27	-24.54	4.05	1.35

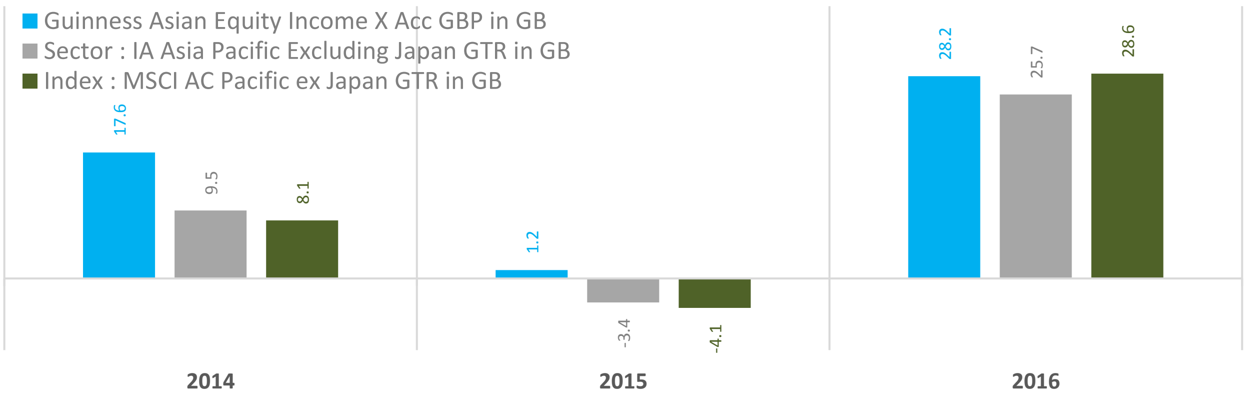
The Sharpe ratio for example is a measure of the reward for each unit of risk taken on by the Fund (risk in this case being each unit of volatility) and it is amongst the best in the sector. The Sortino shows reward per unit of risk but only in times of falling markets. This is higher than the Sharpe ratio which takes its measure in all market conditions. It supports the picture in the previous chart that shows over the past three years the downside protection offered by the Fund. Over the past 3 years relative performance has gained more in falling markets than it has lost when markets were strongly rising. This is the source the Fund's outperformance over time, since launch.

6 Fund performance summary

Here's how the Fund has performed over the last 3 years, Gross total return (%).

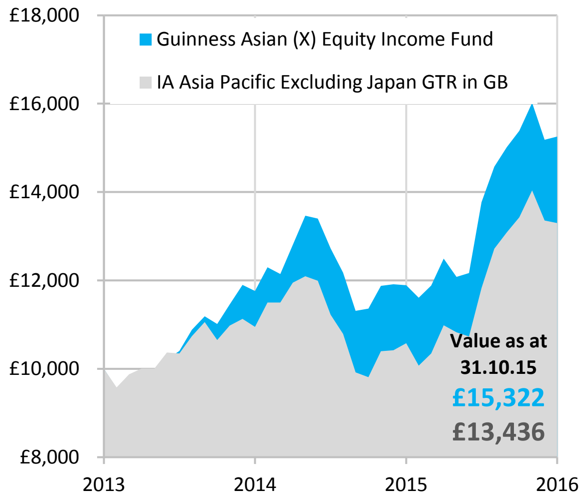


Here's how the Fund has done versus its peers each year, Gross total return (%).

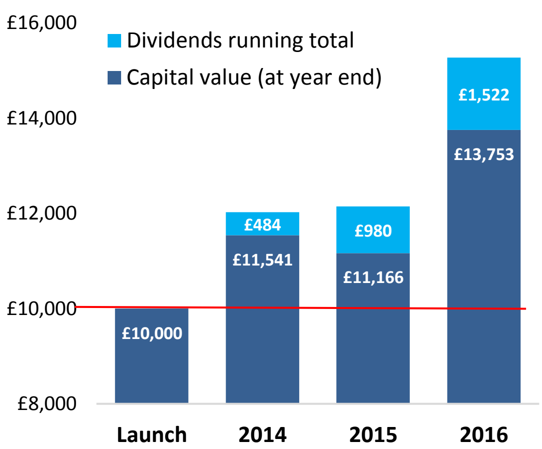


Here's how an investment of £10,000 invested at launch has fared.

Reinvesting fund dividends



Taking fund dividends



Source: Financial Express, in GBP, X class (OCF: 1.24%)

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.

7 Outlook

Good quality companies as we define them, with long track records of sustained wealth creation, are still a very good place to be amidst the high probability of setbacks we are likely to see in 2017 just as we have for the past five years. The EU remains under pressure with elections in the Netherlands, France and Germany coming up and the incumbent political order under pressure in all three. (Such uncertainty in the EU will make UK negotiations with EU harder not easier, with the EU more inclined to circle the wagons and little interest in accommodating UK demands.)

In the US, government policy via Twitter has become especially unpredictable and subject to sharp changes and revisions of direction. This makes focus on individual companies rather than top down calls a more prudent approach in our opinion

The case for investing in Asia remains unchanged:

- Asia is home to quality companies. Of the 1,900 companies globally that meet our criteria for quality, 500 of them are located in Asia

- Valuations are attractive. Asian equities trade at a substantial discount to global equities. At the end of December, the MSCI AC Pacific ex Japan Index traded on a 14.1x price to earnings (P/E) ratio, compared with the MSCI World Index on 18.1x. The fund trades at a further discount – at the end of the year the fund was on a P/E ratio of 11.4x.

- Asia provides a good source of diversified income. We target companies with moderate yields that are capable of growing their dividend over the long term. The trailing yield of the fund at 31 December 2016 was 3.9% (X class, GBP), and the companies in the portfolio have on average grown their dividends at 9.3% per annum over the past five years.

- Asia economies are generating robust, sustainable growth. While a demographic tailwind has played a part in the region's success, the development of a regional manufacturing hub has helped countries to move up the value-chain by producing increasingly sophisticated goods. We see this clearly in China, but elsewhere in Asia too – Thailand's exports are becoming an increasingly important part of the supply chain. The long-term trends of globalisation seem unlikely to be halted any time soon.

8 Three years in review

Here we collate what happened to the Fund in each of the last three years in the form of our respective annual reviews as published at the time.

While we write to our investors every month, we have always believed that writing our more detailed annual review allows us to step back and review the decisions we made, consider where we have made good decisions, bad decisions, been lucky or unlucky, and most importantly consider what lessons we can learn to improve our investment process. We hope you will find these three years of annual reviews as informative as we find them useful to write.

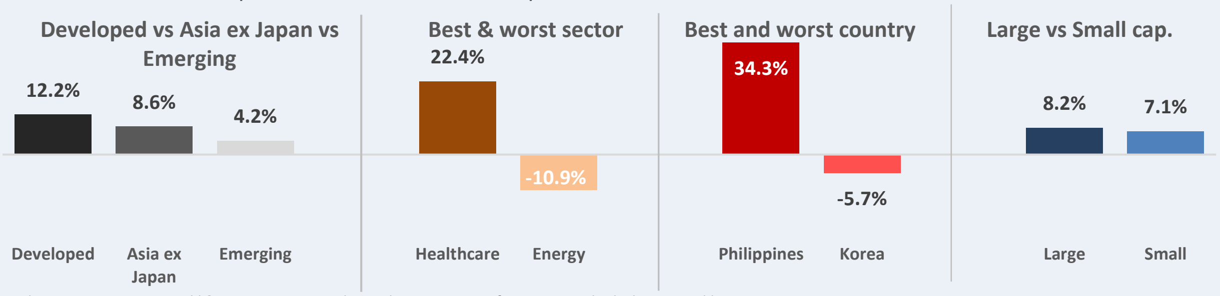
2014

Fund size
Start of year £0.2m
End of year £0.2m

What happened in Asia and the world?

A year of macroeconomic worries, with the Eurozone crisis at the top of the agenda

- Russia annexed the Crimea peninsula
- Oil prices fell over 50% from its high in 2014 as OPEC embarked on a strategy to retain market share in response to a surge in US oil production.
- The US dollar strengthened significantly in the second half of the year with the US Dollar index rising 12.5%.
- In Thailand, following months of political turmoil and street protests, Thailand's military took over the government in May.
- Hong Kong saw the largest pro-democracy protests since the 1997 handover in response to the new electoral reform plan requiring political candidates to secure majority support from 1,200-member nomination committee.
- China's economy grew 7.4%, its slowest pace in 24 years.
- Japan's recovery under the 'Abenomics' programme appeared to stall, blamed by Abe on the effects of the increased consumption tax. Abe called a snap election which he won on a record-low turnout.



Total return in GBP; MSCI World & MSCI Emerging Markets Index; MSCI AC Pacific ex Japan; individual MSCI World GICS sectors.

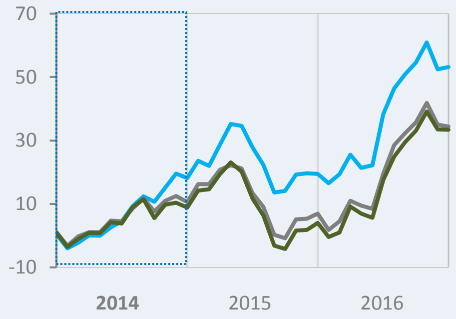
What happened in the Fund?

- The fund slightly underperformed the benchmark in the first quarter dragged back by Chinese and Hong Kong financials amidst concerns about China's shadow banking exposures.
- Outperformance in the subsequent three quarters and significantly so, in the second half of 2014, put the Fund well ahead of the benchmark and sector averages.
- The weakest 3 stocks were Taiwanese healthcare St Shina Optical, Australian retailer JB Hi-Fi and Chinese oil company CNOOC.
- **Purchases**: AAC Technology, Hon Hai Precision
- **Sales**: TTW, VTech.

> ***"The top 3 stocks were Chinese materials company Huabao, Thai property developer LPN Development and Chinese bank China Minsheng."***

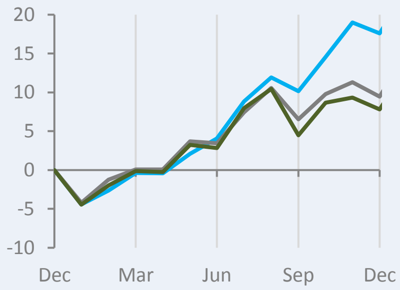
Performance (%)

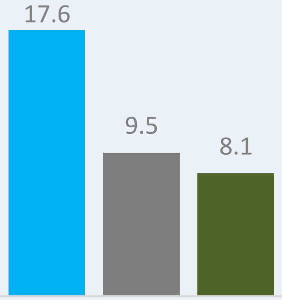
Cumulative since launch



Fund Guinness Asian Equity Income
Sector IA Asia Ex Japan
Index MSCI AC Pacific ex Japan

Calendar year 2014





Cumulative % gross total return, in GBP.
Source: Financial Express.

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 fluctuation

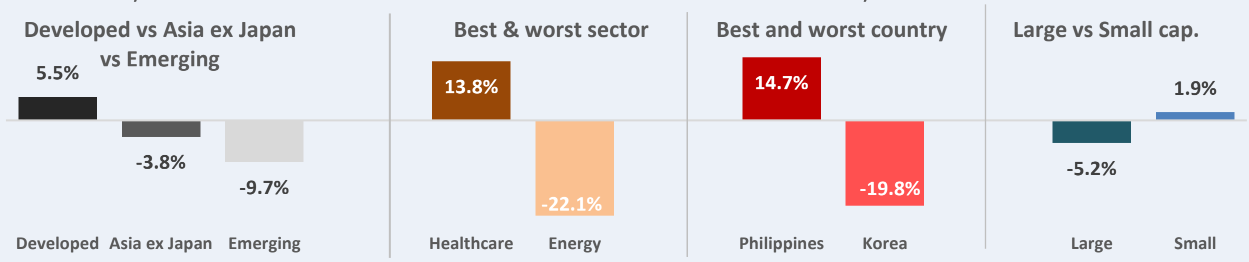
2015

Fund size

Start of year	£0.2m
End of year	£14.2m

What happened in the world?

- The Shanghai and Shenzhen stock markets climbed over 40% (as measured by the Shanghai Shenzhen CSI 300 Index, total return in GBP) by the end of May before falling 32% in the following three months.
- Weak Chinese economic data and a sudden drop in the value of the Renminbi against the dollar following a change to China's exchange rate mechanism affected markets worldwide.
- Commodity prices fell 14% in dollar terms in 2015, as measured by the Commodity Research Bureau All Commodities Index. The drop in oil (the price of WTI crude fell 30%) and iron ore prices (down 36%) alone in 2015 saved China an estimated $100billion off its import bill.
- The Presidents of China and of Taiwan met formally for the first time.
- The Swiss National Bank abandoned the cap on the Swiss Franc's value relative to the Euro.
- Greece missed a debt payment to the IMF
- In December US interest rates rose for the first time since 2006. Markets had been expecting since the middle of the year but the decision had been deferred because of market volatility.



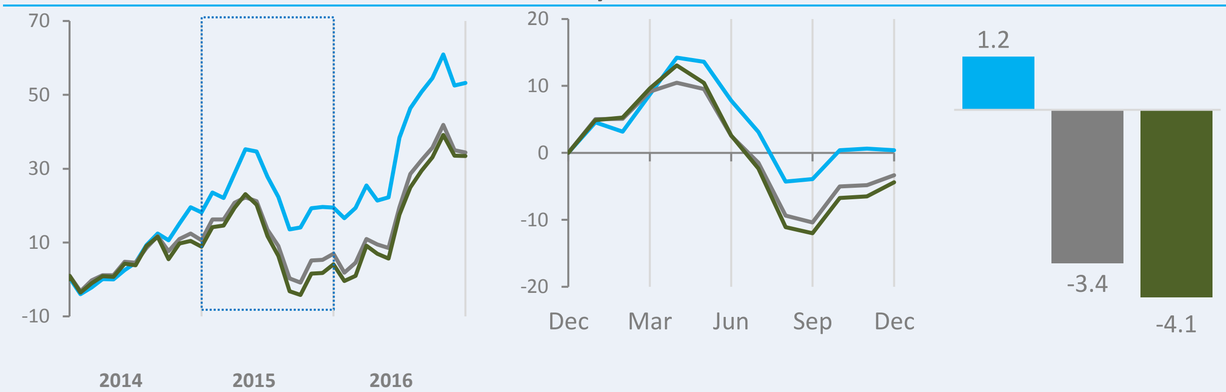
Total return in GBP; MSCI World & MSCI Emerging Markets Index; MSCI AC Pacific ex Japan; individual MSCI World GICS sector.

What happened in the Fund?

- The Fund ended 2015 up 1.2% (X Class, total return in GBP), 5.3% ahead of the benchmark and having behaved in line with our expectation by defending well in falling markets and lagging a little in rising market conditions.
- In third quarter the Fund outperformed the index by 3.3% but it was a rough time for Asian markets with the index down 14% in Sterling terms.
- The top 3 stocks were Japanese real estate services business Relo Holdings, China textile maker Shenzhou International and asset manager Henderson Group.
- The weakest 3 stocks were Hong Kong/China retailer Luk Fook, China materials company Huabao and Thai real estate developer LPN Development.
- Purchases: Aflac Inc, Largan Precision and Belle International
- Sales: Shenzhou International, Huabao and Global Brands (a small stub holding spun out of Li & Fung). Our holding in iiNet was acquired by TPG Telecom.

Performance (%)

Cumulative since launch | **Calendar year 2015**



Fund	Sector	Index
Guinness Asian Equity Income	IA Asia Ex Japan	MSCI AC Pacific ex-Japan

Cumulative % gross total return, in GBP.
Source: Financial Express.

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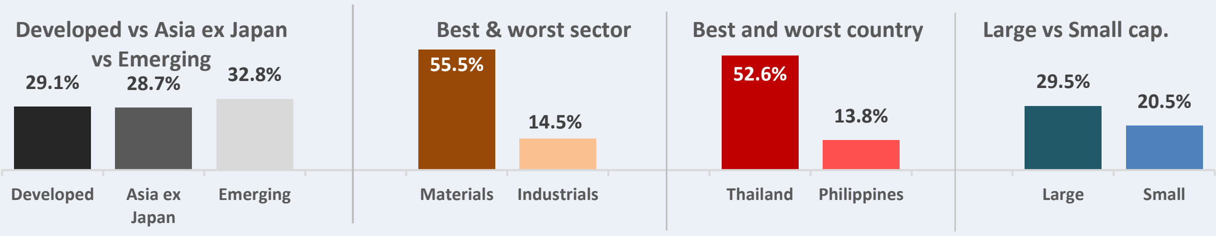
2016

Fund size

Start of year	£14.2m
End of year	£29.7m

What happened in the world?

- Big shifts in the political landscape in the US and UK with the election of Donald Trump as the next US President and the UK's decision to quit the European Union.
- Russian assertiveness has steadily increased with its direct support of Assad in Syria.
- China opened the year with a stock market crash leading to fears of economic crisis accompanied by collapsing commodity prices with oil hitting $26 per barrel and iron ore $40 per tonne.
- China ended the year with evident domestic economic momentum, an end to almost 5 years of falling producer prices and a rebound in industrial profits.
- Iron ore prices rebounded to $78 per tonne to the relief of Australia and Brazil; oil prices recovered to $40 per barrel and lifted further to $50 by OPEC's decision to reverse production strategy to the relief of all oil producers.
- India took all 500 and 1000 Rupee notes out of circulation (86% of all cash) in a move to combat counterfeiting and the black economy. Unsurprisingly, given 95% of consumer transactions are cash- based, the result has been chaos.
- South Korea has had a bad year: first, Samsung had to withdraw its Galaxy Note 7 smartphone and cancel production; second, the parliament voted to impeach the President after weeks of protests over allegations of influence peddling.
- King Bhumibol Adulyadej of Thailand died having reigned for 70 years.



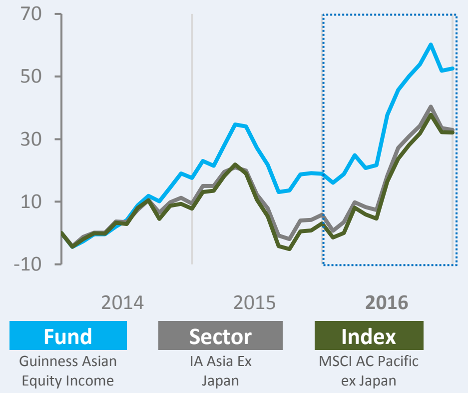
Total return in GBP; MSCI World & MSCI Emerging Markets Index; MSCI AC Pacific ex Japan; individual MSCI World GICS sectors.

What happened in the Fund?

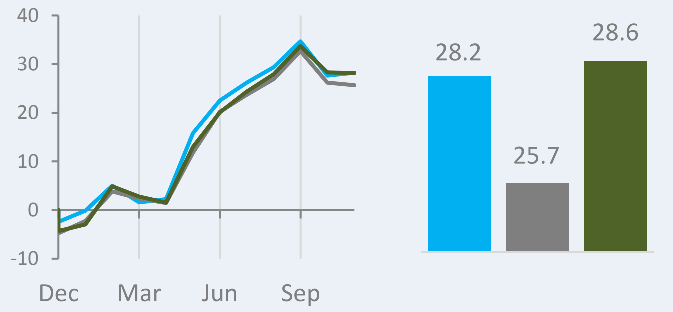
- In a turbulent year the Fund ended the year 0.4% behind the benchmark (X Class, total return in GBP terms). It outperformed the index by 1.7% in the first half and underperformed it by 2.1% in the second half.
- The Fund did well defensively in the weakness in the early part of 2016 and captured the rally in June. In the second half however, the Fund had to contend with the strong recovery in energy and materials prices to which it has low exposure, a falling Korean Won amidst Korea's domestic troubles and with rising interest rate expectations that hurt the REIT positions in the last quarter.
- Nevertheless, having underperformed for five months in the second half, through what was by any stretch a difficult period, the fund outperformed in December.
- The top 3 stocks Largan Precision (Taiwan, technology), PTT (Thailand, energy) and JB Hi-Fi in Australia which had been one of our weakest in 2014.
- The weakest 3 stocks were asset manager Henderson Group, Li & Fung (Hong Kong, factory agent) and Pacific Textiles (China, manufacturer).
- Purchases: DBS Group, Hanon Systems, Tisco Financial Group
- Sales: CNOOC, Digi.Com and Nagacorp.

Performance

Cumulative since launch



Calendar year 2016



Cumulative % gross total return, in GBP. Source: Financial Express.

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9 For more information

Read more on the Fund

Visit our website for more information on the Fund and to register for regular email updates on its performance and portfolio.

Keeping you updated

Detailed portfolio and performance analysis

White papers

Our thoughts on a range of topics including: the importance of dividends; whether to meet company management; concentrated portfolio; the effectiveness of economic modelling.

To sign up for updates or search the archive, visit **guinnessfunds.com**

or contact our **sales team**

Contact our sales team

Our sales team are on hand to explain the Fund and its investment process in more detail and answer any queries you might have.

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10 Guinness Asset Management

Guinness Asset Management provides a range of long only actively managed funds to individual and institutional investors. Founded in 2003, Guinness is independent and is wholly owned by its employees.

We believe in in-house research, intelligent screening for prioritisation of research and well-designed investment processes. We manage concentrated, high conviction portfolios, with low turnover and no benchmark constraints. Since our establishment we have developed a variety of specialisms in global growth and dividend funds, global sector funds and Asian regional and country funds. The Guinness equity funds sit within an Irish-listed OEIC. They are managed alongside a range of similar SEC-registered funds offered to US investors by our US sister company, Guinness Atkinson Asset Management Inc. We also offer an Enterprise Investment Scheme (EIS service) investing in UK-based renewable energy projects and AIM-listed companies.

Guinness equity funds		
Equity income	Global	**Global Equity Income Fund**
	Regional	**Asian Equity Income Fund** **European Equity Income Fund**
Growth	Global	**Global Innovators Fund**
Specialist	Energy	**Global Energy Fund** **Alternative Energy Fund**
	Financials	**Global Money Managers Fund**
	China	**Best of China Fund**

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This report is primarily designed to inform you about 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. 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: Capita Financial Managers (Ireland) Limited, 2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland; or,
- the Promoter and Investment Manager: Guinness Asset Management Ltd, 14 Queen Anne's Gate, London SW1H 9AA.

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
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.

Telephone calls may be recorded and monitored.

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