

Guinness Emerging Markets Equity Income Fund

INVESTMENT COMMENTARY – March 2021

Launch date	23.12.2016			
Team	Edmund Harriss (manager) Mark Hammonds (manager) Sharukh Malik (analyst)			
Aim	The Guinness Emerging Markets Equity Income Fund is designed to provide investors with exposure to high quality dividend-paying companies in Emerging Markets world-wide. The Fund aims to provide long-term capital appreciation and a source of income that has the potential to grow over time.			
Performance	28/02/2021			
Fund	Guinness Emerging Markets Equity Income (Z)			
Index	MSCI Emerging Markets Index			
Sector	IA Global Emerging Markets			
	2020	2019	2018	
Fund	4.0	14.6	- 9.5	
Index	14.7	13.9	- 9.3	
Sector	13.7	16.0	- 11.8	
	YTD	1 Yr	3 Yrs	Launch
Fund	0.8	14.0	6.6	37.7
Index	1.5	24.3	18.6	53.6
Sector	2.2	25.2	17.6	50.6
Annualised % total return from launch				
Fund	8.1%			
Index	10.8%			
Sector	10.1%			
Risk analysis (annualised, weekly, from launch)				
	Index	Sector	Fund	
Alpha	0.0	0.2	-0.9	
Beta	1.0	0.9	0.9	
Info ratio	0.0	-0.1	-0.3	
Max drwn	-22.6	-25.1	-23.1	
Tracking err	0.0	3.6	6.5	
Volatility	15.5	14.8	14.8	
Sharpe ratio	0.4	0.4	0.3	
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. Fund returns are for share classes with a current Ongoing Charges Figure (OCF) of 0.35%; returns for share classes with a different OCF will vary accordingly.				
Source: Financial Express, Z class (0.35% OCF), bid to bid, % total return.				
 <small>on our watchlist: FundCalibre.com</small>				

Fund & Market

- Emerging markets paused their recent run in February, with the MSCI Emerging Markets Net Total Return Index declining by 1.0% (all performance figures in GBP unless stated otherwise).
- The fund outperformed slightly, falling by 0.9% over the month.
- EMEA (Europe, Middle East and Africa) was the best performing region, rising 0.2%. Next was Asia, which fell 0.8%. Latin America was again the laggard, declining 4.6%.
- Of the largest countries in the benchmark, the best performing in the month were India (+3.4%), Saudi Arabia (+3.4%) and Taiwan (+2.8%).
- The worst performing countries were Brazil (-7.9%), China (-2.7%) and Korea (-1.5%).
- The strongest performers in the portfolio were all Information Technology stocks: Novatek Microelectronics (+18.8%), Elite Material (+10.9%) and Largan Precision (+10.7%).
- The weakest performers were, unsurprisingly, our two Brazilian holdings: Porto Seguro (-12.8%) and B3 (-12.5%).
- Emerging market currencies fell by 0.7% over the month.

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Recent events

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

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

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

South Africa's finance minister announced a budget that was better than expected, with the budget deficit for fiscal year ended March 2022 coming in lower than anticipated at 9.3%. Small reductions in taxes were also contrary to prior expectations for increases.

Review of the portfolio

Results have so far this year continued to be generally very positive:

- Ping An Group, a Chinese insurer, reported results that were largely in line with expectations, albeit more muted than compared with prior years. Operating profit after tax grew 5% on last year, and an increase in the dividend of 7% year on year was announced. The market is looking to 2021 for a recovery in the life insurance business. Reductions by the company in sales agent numbers are likely to lead to improved productivity ratios once business recovers.
- Novatek, a maker of display integrated circuits, reported good results for the fourth quarter, that were in line with expectations. Revenue (previously reported by the company) was up 2% quarter-on-quarter, but EPS rose 7%. High demand for WFH/ online learning equipment continues to benefit the company, along with demand from the new smartphone cycle. Tightness in the semiconductor supply chain is leading to rises in average selling prices.
- Netease reported good results, albeit they were in line with expectations. Revenue grew by 26% year on year, with particularly strong growth in the Youdao Education business (revenues up 170% year on year). Management commented on a strong outlook in the gaming business, with the upcoming launches of games in the Harry Potter and Lord of the Rings franchises likely to contribute to international growth.
- Coca Cola Femsa reported results for the fourth quarter of 2020. Revenues were 5% lower on weaker currency; on a comparable currency basis they were up 1.9%. Volumes increased by 1.4%. Strength in markets such as Brazil was offset by tougher trading conditions in the home market, Mexico.

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- Johannesburg Stock Exchange reported diluted headline earnings per share up 14.7%. Revenue jumped 11.8% on 2019 due to higher levels of volatility in financial markets over the year. Operating costs grew in line with revenue. A dividend increase of 15% was announced.
- Unilever results for the fourth quarter were mixed, though largely in line with consensus forecasts. Higher than expected volume growth was offset by lower pricing growth. Emerging market growth slowed from the third quarter, down from 5% to 3.5%, held back by South East Asia and Latin America.

Outlook

In recent weeks we have seen a cooling by investors towards growth stocks – an area of the market that has performed very strongly in recent months. This shift in attitude has helped the performance of strategies more oriented towards value, such as ours. Our approach for identifying quality companies trading at attractive prices means we do not overlap exactly with more quantitative definitions of value (as applied by the value subcomponent of the index); nevertheless, our fund more closely matches the performance of value stocks. Growth is still an important characteristic we seek in our investee companies – the ability to grow the business and thus the dividend represents a crucial part of total shareholder returns over the long term.

Inflation has continued to be a topic much discussed by market commentators watching the continued rise in US treasury yields. Central bankers have been explicit that they will allow inflation to run above target for a period of time; in theory compensating for a long period when it has been consistently below expectation. But it's not hard to imagine this leading to an eventual worsening of an inflationary problem. For now, inflation is not showing up in statistical measures, except for in a few, very specific areas.

Attention remains fixed on the reopening of major economies later this year, and the expected pickup in consumer spending. Countries that have made good progress on the vaccine rollout appear well positioned in this respect. Europe at present is lagging, and renewed lockdowns have caused a worsening of sentiment. But it is likely that this will improve again as vaccines are increasingly administered.

The approval of an increasingly diverse range of vaccines will be of benefit to emerging markets, particularly in Latin America which has been severely hit by the pandemic. Vaccines that are more easily distributed, that do not require special handling etc., will be a blessing as the global rollout continues.

Edmund Harriss

Mark Hammonds (portfolio managers)

Sharukh Malik (analyst)

Data sources

Fund performance: *Financial Express*, total return

Index and stock data: *Bloomberg*

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Guinness Emerging Markets Equity Income Fund

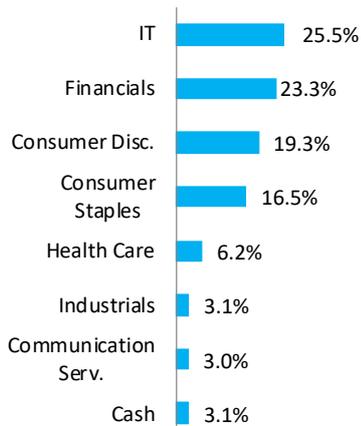
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28/02/2021

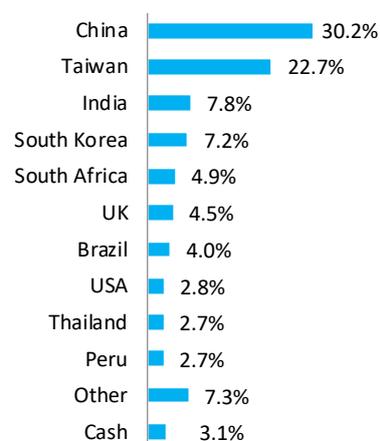
Fund top 10 holdings

Novatek Microelectronics	3.9%
China Medical System	3.7%
Hon Hai Precision Industri	3.4%
Suofeiya Home Collection	3.4%
China Merchants Bank	3.2%
Haitian International Hol	3.1%
Netease.com	3.0%
Ping An Insurance	2.9%
Shenzhou International	2.9%
Taiwan Semiconductor	2.8%
% of Fund in top 10	32.3%
Total number of stocks	36

Sector analysis



Geographic allocation



PERFORMANCE

28/02/2021

Annualised % gross total return from launch (GBP)

Fund (Z class, 0.35% OCF)	8.1%
MSCI Emerging Markets Index	10.8%
IA Global Emerging Markets sector average	10.1%

Discrete years % gross total return (GBP)

	Feb '21	Feb '20	Feb '19	Feb '18	Feb '17
Fund (Z class, 0.35% OCF)	14.0	2.5	-8.8	-	-
MSCI Emerging Markets Index	24.3	2.6	-6.3	18.3	45.5
IA Global Emerging Markets sector average	25.2	2.3	-8.2	16.6	42.0

Cumulative % gross total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Z class, 0.35% OCF)	-0.9	0.8	14.0	6.6	-	37.7
MSCI Emerging Markets Index	-1.0	1.5	24.3	18.6	6.0	53.6
IA Global Emerging Markets sector average	-0.4	2.2	25.2	17.6	5.7	50.6

RISK ANALYSIS

28/02/2021

Annualised, weekly, from launch on 23.12.16, in GBP	Index	Sector	Fund
Alpha	0.00	0.00	-0.90
Beta	1.00	1.00	0.87
Information ratio	0.00	0.00	-0.34
Maximum drawdown	-22.63	-22.63	0.83
R squared	1.00	1.00	0.83
Sharpe ratio	0.44	0.44	0.30
Tracking error	0.00	0.00	6.45
Volatility	15.51	15.51	14.84

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Source: Financial Express, bid to bid, total return (0.35% OCF). Fund launch date: 23.12.2016.

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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 Guinness Emerging Markets 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 Emerging Markets 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: 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'Île, 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.

GUINNESS

ASSET MANAGEMENT

Guinness Asset Management Ltd is authorised and regulated by the Financial Conduct Authority

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