Guinness Emerging Markets Equity Income Fund

INVESTMENT COMMENTARY – June 2021

Launch date	**23.12.2016**
Team	**Edmund Harriss** (manager) **Mark Hammonds** (manager) **Sharukh Malik** (manager)

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

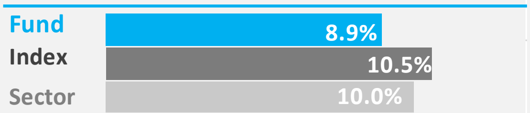
31/05/2021

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	5.7	24.6	14.6	44.4
Index	3.2	31.3	23.4	56.0
Sector	3.2	33.6	23.3	52.1

Annualised % total return from launch



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0.0	0.3	0.2
Beta	1.0	0.9	0.9
Info ratio	0.0	-0.1	-0.2
Max drwdn	-22.6	-25.1	-23.1
Tracking err	0.0	3.6	6.6
Volatility	15.3	14.5	14.6
Sharpe ratio	0.4	0.4	0.4

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.

Fund & Market

- Emerging markets declined during May. The MSCI Emerging Markets Net Total Return Index fell 0.3% (all performance figures in GBP unless stated otherwise).
- The Fund underperformed in the period, falling 0.7%.
- Year to date, however, the fund remains ahead, up 5.7% versus the benchmark, up 3.2%.
- Developed markets underperformed emerging markets this month, with the MSCI World Index down 1.2% and the S&P 500 Index down 1.9%.
- Performance by style was divergent, with the growth component of the index falling 1.9%, whereas the value component rose 1.1%.
- Regional performance varied, with Latin America again the best performer, up 5.1%. EMEA (Europe, Middle East and Africa) was next, up 3.0%. Asia was the laggard, declining 1.4%.
- Of the largest countries in the benchmark, the best performing in the month were Brazil (+6.7%), Russia (+6.6%) and India (+5.8%).
- The worst performing countries were Taiwan (–3.8%), Thailand (–3.2%) and Saudi Arabia (–2.7%).
- The strongest performer in the portfolio was Shenzhou International (+14.3%). Credicorp (+12.2%) recovered strongly and China Merchants Bank (+11.6%) also made a good contribution to returns.
- The weakest performers were Haitian International (–16.6%), Novatek Microelectronics (–15.2%) and St Shine Optical (–9.5%).
- Emerging market currencies rose again over the month, increasing 1.2%.

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Recent events

- Coronavirus cases in India appear to have peaked; Brazil, on the other hand, saw rising case numbers as political protests continue.

- A stimulus package of THB 140bn was announced by the Thai government to support the economy as the country tackles a severe outbreak of COVID-19.

- Recent strength in the Renminbi has caused Chinese policymakers to increase the reserve requirement for foreign exchange deposits from 5% to 7%.

- Taiwan has been suffering from a drought, with the consequential water shortage having the potential to disrupt semiconductor manufacturing.

Review of the portfolio

Further updates from our portfolio holdings were released:

- **B3**, the Brazilian stock exchange and financial services company, reported results for the first quarter. Net revenues grew 23% year on year (up 7% quarter on quarter) supported by strong equity trading volumes. Public offerings were also strong, at 22 in the quarter compared with 9 in the first quarter 2020. Recurring net income rose 19% year on year, slightly behind consensus estimates. EBITDA came in ahead of estimates, with EBITDA margin reaching a record high of 83.1% (up from 78.7% in the fourth quarter).

- **Novatek Microelectronics** increased second quarter guidance to 25-29% quarter on quarter revenue growth and 45-48% gross margin. Recent demand strength across product categories for the display driver company has been broad. Price hikes continue to benefit Novatek, as tightness in the supply chain persists.

- **Spar Group** released results for the first half of their fiscal year (ended September). Recent weakness in South African grocery sales (the domestic market) has been offset by strong trading in Ireland and Switzerland. Losses from the recently enlarged Polish operation have also reduced. In the domestic market, declines in unit volumes reduced the impact of price inflation on overall sales. Partly the results represent a normalisation of consumer behaviours, with pantry stocking not recurring and restaurants returning to popularity. Guidance for adjusted earnings per share for the full year is for 30% to 40% growth year on year, in line with consensus expectations.

- Despite a high base in the first quarter of 2020, **Netease** reported strong results. First quarter dividends per share were up 30% on the same period last year. Overall revenue rose 20% and net profit increased 21%. Online game revenue was up 11% YoY on a high base, mobile games were up 15% and the company is about to enter strong launch cycle of new games this year, with 30 new games in the pipeline. Innovative business revenues (Ads, Cloud Music *etc*.) rose 40%. NetEase Cloud Music has signed a direct digital distribution partnership with Sony which, following an earlier agreement with Universal Music, means they have signed with two out of the big three. The education business, Youdao is still small (6.5% of revenues) but growing fast at 150% year on year (21% quarter on quarter) and its gross margin rose 13% to 57% as scale economies kicked in.

- **Catcher Technology** reported first quarter profits were up 4% year on year which was below consensus. Gross margin expanded, however, on better product mix and lower depreciation charges. There are component shortages for Apple's iPad and MacBook which is likely to hinder performance. The company announced a dividend of NT$12, up from NT$10 last year and has guided NT$10 for 2021-23.

- **Hanon Systems** reported first quarter results that were weaker than expected on higher shipping costs but electric vehicle component sales were strong. The order book remains strong at 5 years+ and diversified across vehicle and customer type. Customers of the company include Hyundai, BMW, Audi, Geely, VW & GM. The company has increased its dividend to KRW90 (+13% above the prior adjusted run rate, +32% YoY).

- **KT&G** reported first quarter earnings that were below expectations with operating profit up 1.2% vs revenue growth of 7.3%. Domestic volumes of normal cigarettes remain flat while heat-not-burn and export sales both increased. Overseas growth is the main driver of the business; cost of sales and marketing is something to watch.

- **Hon Hai Precision** has had to halve Indian production of the iPhone 12 due to COVID. First quarter net income was 15% ahead of consensus and gross margin rose to 5.8% on sales growth. The company noted component supply shortage may persist into next year.

Outlook

As the global economic recovery picks up pace, the outlook for emerging markets continues to improve. Where pandemic restrictions have been eased, strong demand is fuelling heightened levels of consumption in many categories (retail sales in particular). Not all categories are back to full strength — international travel remains an obvious laggard — but the direction of improvement is clear.

Where there have been pinch points in the supply chain, the result has typically been price rises which have started to be reflected in inflation figures, presenting a challenge to central bankers. Many of the price rises can be *explained*, where they relate to specific supply chain bottlenecks, which has led to the assumption that they are transitory. Our assumption is that some may be transitory, but some may well persist. The wage increases that have been announced recently are certainly more likely to be at the non-transitory end of the spectrum.

The other variable to be considered is the degree to which inflation in input prices will translate into inflation in finished goods prices. Here it is perhaps too early to tell, but we will get a better idea of this in the following months – China, in particular, is worth monitoring from this perspective.

Our portfolio invests in quality companies – companies that have generated good returns on capital in varying economic climates. We continue to monitor whether our companies are benefiting more from higher demand than they are suffering from higher costs. Companies that are either resilient to these external factors or can successfully adapt to changing circumstances will likely be those that are in a better position to reward their shareholders over time.

Edmund Harriss
Mark Hammonds
Sharukh Malik (portfolio managers)

Data sources
Fund performance: *Financial Express, total return*
Index and stock data: *Bloomberg*

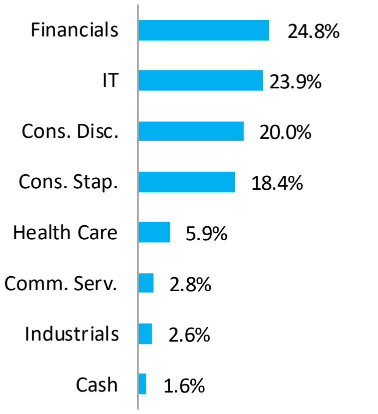
PORTFOLIO

31/05/2021

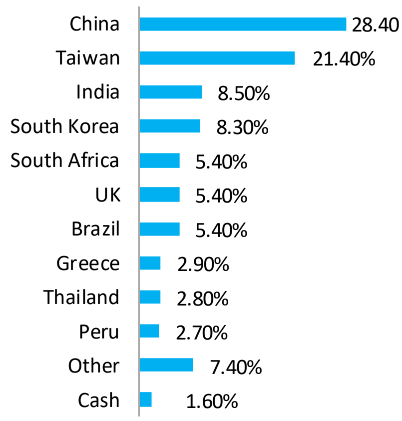
Fund top 10 holdings

China Merchants Bank	3.4%
Shenzhou International	3.2%
Bajaj Auto	3.1%
China Medical System	3.0%
Hon Hai Precision Industr	3.0%
Jumbo	2.9%
St. Shine Optical Co	2.9%
Hanon Systems	2.9%
Novatek Microelectronics	2.9%
Netease.com	2.8%
% of Fund in top 10	30.2%
Total number of stocks	36

Sector analysis



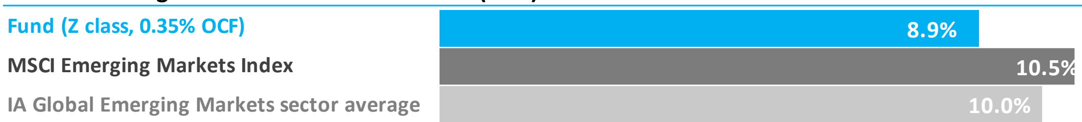
Geographic allocation



PERFORMANCE

31/05/2021

Annualised % gross total return from launch (GBP)



Discrete years % gross total return (GBP)	May '21	May '20	May '19	May '18	May '17
Fund (Z class, 0.35% OCF)	24.6	-6.2	-1.9	-	-
MSCI Emerging Markets Index	31.3	-2.2	-3.2	11.0	44.2
IA Global Emerging Markets sector average	33.6	-5.2	-2.7	6.8	42.4

Cumulative % gross total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Z class, 0.35% OCF)	-0.7	5.7	24.6	14.6	-	44.4
MSCI Emerging Markets Index	-0.3	3.2	31.3	23.4	5.6	56.0
IA Global Emerging Markets sector average	-0.7	3.2	33.6	23.3	5.4	52.1

RISK ANALYSIS

31/05/2021

Annualised, weekly, from launch on 23.12.16, in GBP	Index	Sector	Fund
Alpha	0.00	0.00	0.16
Beta	1.00	1.00	0.86
Information ratio	0.00	0.00	-0.18
Maximum drawdown	-22.63	-22.63	0.81
R squared	1.00	1.00	0.81
Sharpe ratio	0.42	0.42	0.35
Tracking error	0.00	0.00	6.63

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 (0.35% OCF). Fund launch date: 23.12.2016.

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'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.