Guinness Emerging Markets Equity Income Fund

INVESTMENT COMMENTARY – August 2021

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

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

31/07/2021

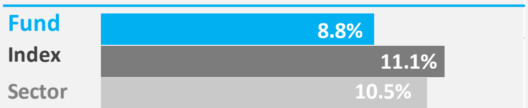
Past performance does not predict future returns

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	1.3	16.2	9.2	38.4
Index	-1.5	13.9	18.6	49.0
Sector	0.2	18.0	20.9	47.8

Annualised % total return from launch



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0.0	0.4	-0.1
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	14.4	14.5
Sharpe ratio	0.3	0.3	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.

Fund & Market

- Emerging markets sold off during July. The MSCI Emerging Markets Net Total Return Index fell 7.3% (all performance figures in GBP unless stated otherwise).
- The fund outperformed in the period, falling 5.5%.
- The fund therefore extended its lead for the year to date, up 1.3% versus the benchmark *down* 1.5%.
- Developed markets outperformed emerging this month, with the MSCI World Index up 1.1% and the S&P 500 Index up 1.6%.
- Emerging markets Growth, down 9.3%, strongly underperformed Value, down 5.4%.
- Asia was the worst-performing region, down 8.8%, followed by Latin America, which was down 4.8%. EMEA (Europe, Middle East and Africa) was flatter, falling by only 0.7%.
- Of the largest countries in the benchmark, the best-performing in the month were Mexico (+1.6%), India (+0.1%) and Saudi Arabia (–0.1%).
- The worst-performing countries were China (–14.5%), Thailand (–7.6%) and Brazil (–6.8%).
- The strongest performer in the portfolio was Tech Mahindra (+12.5%). Haitian International (+8.3%) and Coca-Cola Femsa (+6.8%) also performed well.
- The weakest performer was China Medical System (–23.5%), although the stock remains the best performer for the year to date, up 80.7%. Suofeiya Home (–21.6%) and Zhejiang Supor (–19.4%) were also weak.
- Emerging market currencies fell over the month, declining 1.0%.

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Recent Events

- China's regulatory efforts to rein in the technology giants stepped up this month. Regulators suddenly clamped down on DiDi, a ride-hailing business similar to Uber that had just listed in New York. Further steps followed against Meituan, a food delivery business, and finally against the private tutoring companies.

- US Consumer Price Inflation continued to rise, with All Items less Food and Energy up 4.5% in June compared to the same period last year.

- The Federal Open Markets Committee (FOMC) maintained its cautious stance in its recent policy statement. The committee has in the past said that it would not move unless the economy has made "substantial further progress". Recent wording introduced "[the Committee] will continue to assess progress in coming meetings", which suggests no imminent moves on interest rate increases or curbs on asset purchases.

- Oil prices recovered from a sharp drop mid-month as OPEC wrangled over, and finally agreed upon, production targets.

- Metals prices have been mixed. Iron ore weakened in July, copper has climbed a little, while metals with tighter supply profiles such as nickel and zinc have climbed. Overall, these prices have held up and therefore pressure remains on input costs.

- Market concerns about inflation subsided from their peak; the yield on the US 10-year Treasury has fallen 0.5% from its high this year of 1.74%. Coronavirus cases in India appear to have peaked; Brazil, on the other hand, saw rising case numbers as political protests continue.

Review of the Portfolio

Companies in the portfolio have been reporting results for the second quarter/first half:

- Hon Hai set record revenue for the month of June. Second quarter revenue overall was flat versus the previous quarter, in line with guidance. Earnings and guidance comments will be reported separately in mid-August. Third quarter revenue growth is expected to benefit from new iPhone and MacBook products.

- Strong demand indicated in management comments from new holding Yili. Sales growth in Q2 21 (versus 2019) accelerated from the first quarter. Year-to-date sales growth was also faster than the original expectation. High input prices in raw milk may be passed on to the consumer, but this is somewhat dependent on the actions of competitors. Savings from lower marketing costs will help improve profit margins in future.

- It was reported that Apple and Intel are likely to adopt TSMC's latest process node (3nm) from late 2022. Apple is expected to adopt it initially for iPad chips in the second half of 2022, and for iPhones in second half 2023. Demand from Intel (as a customer) is also expected to be strong, providing further confirmation of TSMC's technological leadership.

- Largan reported revenues for the first half that were down 15% year-on-year, reflecting a difficult competitive environment for the company. Smartphone manufacturers have been favouring mid to low-end lens specifications recently, whereas Largan excels at producing the highest specification lenses. Mid to low-end products are also associated with lower margins. The outlook for the second half of the year is better, with more demand expected in high-end lenses in the fourth quarter. The company is also in the process of expanding capacity (due to commence operation in 2023), indicating management is confident about the longer-term demand outlook.

- Tata Consultancy Services reported a slight miss on headline revenues for the first quarter (the company has March year-end). However, in the context of India's recent experience with the pandemic this was to be expected. Management is guiding for a strong recovery in the Indian business in the coming quarter. Overall, the business is doing well and has been adding to headcount to meet strong demand from clients. Banking, Financial Services and Insurance, the company's largest industry 'vertical', grew at 19% year-on-year in constant currency. The company's pipeline is also very strong, with record bookings in the first quarter (despite a lack of very large 'mega' deals). Management reiterated guidance of double-digit revenue growth for this financial year.

- TSMC reported results for the second quarter at the high end of management guidance. Revenues were up 2.7% quarter-on-quarter, benefiting from high-performance computing (HPC) sales in China (which includes crypto currency mining tools). The HPC segment overall grew 12% quarter-on-quarter. Operating margin declined 2.4 percentage points to 39.1% due to currency movements. However, 39% is management's long-term target. Management also commented that they expect the chip shortage in the auto sector to ease in the third quarter.

- Catcher reported results that missed expectations due to a slowdown in the second quarter. Following the sale of the bulk of the company's smartphone business, the main driver of sales is notebook and tablet casings. Shortages in the supply of components has caused problems for manufacturers, which has put some pressure on Catcher. There is also strong competition in this market from Chinese peers. We await further information from management regarding use of the sale proceeds and any potential acquisitions.

- Unilever reported results for the first half. Overall the company saw underlying sales growth of 5.4%, driven 4.0% by volume and 1.3% by price. Operating margins decreased by one percentage point to 18.8%, driven partly by promotional activity, but also by higher input costs. Management's comments highlighting the cost pressures the company is facing were notable:

> *"Cost inflation is now in the news on a daily basis… Last quarter, we said that we expected to see percentage commodity inflation in the second half in the low to mid-teens. Since then, we've seen further incremental price increases across many commodities. Inflation is impacting us across the full spectrum of input costs in materials, in packaging and quite notably in freight and distribution costs."*

Outlook

The market environment has shifted in recent weeks as lower readings on core inflation metrics have reassured some that the Fed's casting of inflation as transitory is proving accurate. Nevertheless, this contrasts with the experience reported by many companies reporting cost increases in both raw materials (as in the case of Unilever, above) and labour costs. Some inflation is likely to be a temporary result of the economy restarting, but part is likely to be more persistent, particularly in the case of labour. Over the coming months we will see which effect predominates, but for now we will go with the 'on the ground' experience reported by corporate managers (while acknowledging the data suffers from a lag effect).

Further challenges for the supply chain are the disruptions in China of further local Covid outbreaks. Port closures that have been mandated after new cases have been detected will compound high shipping costs and cause further time disruption to deliveries. As a result of the new outbreaks, there have been some indications of at least a slight slowing in China, but it is too soon to determine the full scope and secondary effects.

Our general view is that the economic momentum of the first half of the year is likely to continue into the second, and this strong undercurrent is likely to overcome the short-term disruption of recent weeks. However, this scenario is obviously contingent on the continued economic reopening in the US and in Europe, without being threatened significantly by the Delta coronavirus variant, and of course on China being able to effectively contain any local outbreaks.

We expect our companies to continue to do well overall in what remains a challenging environment. The strong structural forces that have enabled them to achieve high returns in the past are likely to continue to do so in the future. Where we can find these companies trading at reasonable valuations and providing a reliable source of income, we think shareholders will benefit over time.

Edmund Harriss (Co-Manager)
Mark Hammonds (Co-Manager)
Sharukh Malik

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

PORTFOLIO

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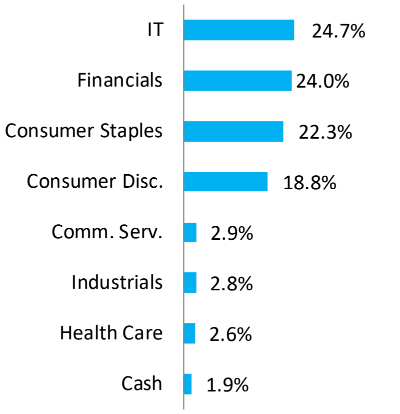
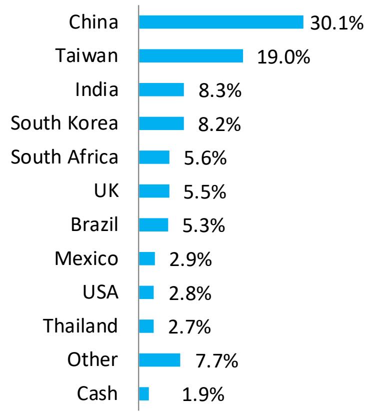
Fund top 10 holdings

Novatek Microelectronics	3.0%
Tech Mahindra	3.0%
Coca-Cola Femsa	2.9%
Netease.com	2.9%
Spar Group	2.9%
Unilever	2.8%
Shenzhou International	2.8%
Haitian International Hold	2.8%
Ping An Insurance	2.8%
Broadcom	2.8%
% of Fund in top 10	28.7%
Total number of stocks	36

Sector analysis



Geographic allocation



PERFORMANCE Past performance does not predict future returns

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Annualised % gross total return from launch (GBP)

Discrete years % gross total return (GBP)	Jul '21	Jul '20	Jul '19	Jul '18	Jul '17
Fund (Z class, 0.35% OCF)	16.2	-10.1	4.6	10.0	-
MSCI Emerging Markets Index	13.9	-0.3	5.2	5.3	26.2
IA Global Emerging Markets sector average	18.0	-4.0	6.6	2.1	23.9

Cumulative % gross total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Z class, 0.35% OCF)	-5.5	1.3	16.2	9.2	-	38.4
MSCI Emerging Markets Index	-7.3	-1.5	13.9	18.6	5.3	49.0
IA Global Emerging Markets sector average	-5.9	0.2	18.0	20.9	5.1	47.8

RISK ANALYSIS

31/07/2021

Annualised, weekly, from launch on 23.12.16, in GBP	Index	Sector	Fund
Alpha	0.00	0.00	-0.05
Beta	1.00	1.00	0.86
Information ratio	0.00	0.00	-0.19
Maximum drawdown	-22.63	-22.63	0.82
R squared	1.00	1.00	0.82
Sharpe ratio	0.34	0.34	0.26
Tracking error	0.00	0.00	6.56
Volatility	15.26	15.26	14.52

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 in English from www.guinnessfunds.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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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.