Guinness Emerging Markets Equity Income Fund

INVESTMENT COMMENTARY – December 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.

This is a marketing communication. Please refer to the prospectus and KIID for the Fund before making any final investment decisions.

Performance

30/11/2021

Past performance does not predict future returns

Fund	Guinness Emerging Markets Equity Income (Y)
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	0.9	6.2	16.4	35.3
Index	-1.2	3.6	25.8	49.5
Sector	-0.5	4.9	27.7	46.8

Annualised % total return from launch

Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0.0	0.4	-0.2
Beta	1.0	0.9	0.8
Info ratio	0.0	-0.1	-0.2
Max drwdn	-22.6	-25.1	-23.1
Tracking err	0.0	3.5	6.7
Volatility	15.1	14.3	14.2
Sharpe ratio	0.3	0.3	0.2

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 0.89%; returns for share classes with a different OCF will vary accordingly.

Source: Financial Express, Y class (0.89% OCF), bid to bid, % total return.

Fund & Market

- Emerging markets were weaker again in November. The MSCI Emerging Markets Net Total Return Index fell 0.6% (all performance figures in GBP unless stated otherwise).
- A more hawkish tone by the Fed, suggesting an accelerated tapering schedule, and fears towards the end of the month about the new Omicron COVID variant, combined to produce the sell-off.
- Developed markets outperformed emerging again last month, with the MSCI World Index up 0.8%. The S&P 500 Index outperformed both, up 2.4%.
- Within emerging markets, value and growth performed similarly, with the value index falling 1.2% and growth falling 1.1%.
- Latin America was the strongest performer, finishing flat. Asia was next, declining by 0.7%. EMEA (Europe, Middle East and Africa) was significantly weaker, declining by 4.1%.
- Of the largest countries in the benchmark, the best-performing in the month were Taiwan (+5.4%), Brazil (+1.6%) and India (unchanged).
- The worst-performing countries were Russia (-8.1%), Saudi Arabia (-5.5%) and Thailand (-3.1%). Russia and Saudi Arabia were particularly impacted by the declines in the oil price.
- The strongest performers in the portfolio were Elite Material (+20.5%), Zhejiang Supor (+20.5%) and Novatek Microelectronics (+15.9%).
- The weakest performers were Spar Group (–17.7%), Banco Davivienda (–11.1%) and Bajaj Auto (–10.1%).
- Emerging market currencies fell again over the month, losing 7.6%.
- The oil price whipsawed, finishing the month down 16.9%.

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Events

- Consumer price inflation pushed higher in the US, reaching 6.2%, and in Europe.
- Powell was re-appointed as Chairman of the US Federal Reserve.
- Biden signed a $550 billion infrastructure bill, not as large as originally envisaged, but still significant.
- For most of the month, markets were pricing in expectations of US interest rate increases and faster slowdown of bond purchases (i.e. faster tapering). Views at the end of the month changed, again.
- At the end of the month, a new COVID variant renewed pandemic fears.
- European efforts to stem new COVID cases, even before the emergence of the new variant, have seen more draconian rules imposed in Austria, Belgium, Germany and the Netherlands.
- Private real estate developers in China remain a hotspot as the Evergrande saga continues. Other developers including Aoyuan, Kaisa and Shimao are also under pressure.
- Copper prices remain elevated while iron ore has come back down to 2019 levels, ending the month at $94 per tonne (for 62% fine ore) compared to a July peak of over $200.

Review of the portfolio

Further updates came in during the month for portfolio companies.

- Ping An Insurance reported results for the third quarter that were in line with expectations. Net profit for the first nine months is down 20.8%; however, this is largely due to the challenges in the life insurance business that have been highlighted previously. As an indication of the speed at which the business is being restructured, the agent headcount was reduced by 20% in the quarter, leading to improvements in agent productivity. Within agents, those recognised as 'diamond' status have remained stable on a headcount basis yet improved productivity 20%. Management is thus seeking to improve the quality of its agent workforce, while it restructures, with retention and training initiatives.

- China Construction Bank reported results for the third quarter, with profits up 16% year-on-year. Pre-previsioning operating profit (PPOP) was up 9% year-on-year. Asset quality is stable, with the non-performing loan ratio down two basis points from the previous quarter. Fee growth at 5% year-on-year was relatively muted.

- Bajaj Auto reported second financial quarter results that were behind expectations. Revenues have recovered, up 20% year-on-year, but profitability is weaker, with EBITDA margin down 3.1 points to 14.6%. Raw material price increases have been a headwind, and the chip shortage has impacted the production of higher-end motorcycles. Generally, domestic volumes have been weak, but exports have been brighter. Bajaj is expanding its EV production capacity, rising from 5,000 units/month currently to an eventual target of 500,000 units/year.

- Shenzhou International is expecting production levels in Vietnam to normalise by the end of the year. Morgan Stanley expects capacity to expand by 19% in 2022 and is forecasting revenue growth of 26%. Headcount is expected to increase by 7,000 workers in 2022. Strong demand growth likely to come from key clients Nike, Uniqlo, Puma and Adidas.

- Catcher Technology reported results for the third quarter which were behind market forecasts, largely on component supply shortages. Gross margin improvement accelerated, increasing over 3% to 35.4%. Most of the business still comes from notebook customers and management reiterated its business diversification lies in automotive, 5G telecom thermal solutions and medical devices.

- Hanon Systems results for the third quarter were affected by supply shortages, rising freight costs and high raw materials prices. The production issues at key clients General Motors and Ford have been most pronounced. Higher costs can be clawed back through pricing in coming quarters. The outlook for the electric vehicle (EV) business remains robust and management has upgraded its e-compressor sales volume target by 35% to 6m units by the 2025 financial year.

- Hon Hai Precision's third quarter results showed margins and core profit in line with expectations and net profit that was 14% above consensus estimates driven by non-operating income and a lower tax rate. The company's EV business is gaining momentum, with more partnerships coming through with existing car manufacturers, and the company plans to enter mass-production of EV trucks in collaboration with Lordstown Motors (a small Ohio-based manufacturer), in the second half of 2022 – a year earlier than expected.

- Novatek reported results for the third quarter with revenue up 12% on the previous quarter. Gross margin of 51.9% was above the guided range of 49-51%.

- KT&G operating profit for the third quarter was in line with forecasts, up 36% year-on-year. Domestic market share in traditional cigarettes rose, though volumes fell; market share in next-generation products reached 40% and volumes grew. Export sales were mixed – weaker in the Middle East and stable in the US. Management indicated the likelihood of a flat dividend this year but affirmed a commitment to buybacks (4.1m shares, 2.98% of outstanding between Nov 2021 and Feb 2022).

- NetEase results beat expectations for both revenue and profit driven by PC game revenue up 29% year-on-year. Mobile game revenue grew 9% with Harry Potter, Fantasy Westward Journey and Westward Journey Online being the contributors. Cloud Music saw good revenue growth and sustained its gross margin, having improved its content library after completing an agreement with Warner Music. The Cloud Music subsidiary completed its initial public offering at the end of the month.

Outlook

As we move towards the year end, the portfolio currently trades at 12.5 times estimated 2021 earnings and 11.2 times estimated 2022 earnings. These multiples represent a 6% and 11% discount respectively to those for the benchmark (13.2x 2021 earnings and 12.5x 2022 earnings). Multiples thus look attractive to us on both an absolute and relative basis.

In addition to the value on offer, projected earnings growth also looks favourable, with implied earnings growth of 12% in 2022. Longer term historic growth for the portfolio is reflected in the dividend, which for our current portfolio companies has grown at 13.3% per annum over the past five years. The current trailing yield of the fund is 3.0%. (Historic yield reflects the distributions declared over the past 12 months expressed as a percentage of the mid-market price, as at the date shown. It does not include any preliminary charges. Investors may be subject to tax on the distribution.)

Markets move into 2022 with investors relatively optimistic that the re-opening trends that have played out for much of the second half of 2021 will continue, and that pent up demand will lead to strong trading demand across industries. Supply chain pressures will begin to ease. Omicron, the newest COVID variant, has dented this view slightly, but not completely derailed it.

Our approach, as ever, is to focus on quality enterprises that have established track records of achieving excellent operational and financial results, which we believe will reward shareholders well over the long term.

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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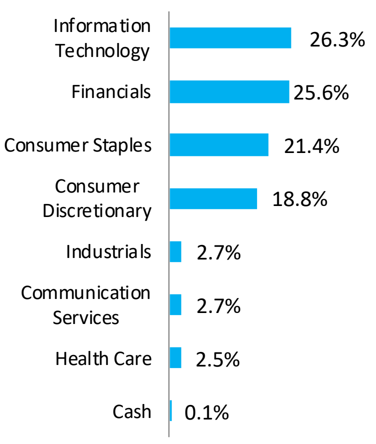
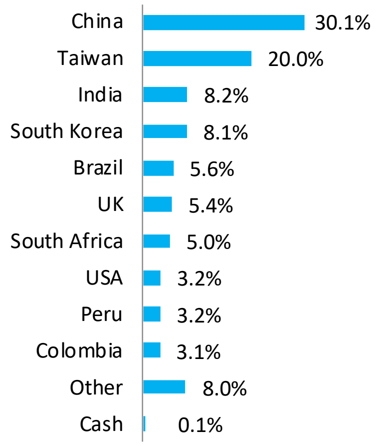
Fund top 10 holdings

Broadcom	3.2%
Credicorp	3.2%
Banco Davivienda	3.1%
Elite Material	3.1%
TATA Consultancy Service	3.0%
Suofeiya Home Collection	3.0%
Ping An Insurance	3.0%
Largan Precision	2.9%
KT&G Corporation	2.9%
Hon Hai Precision Industr	2.9%
% of Fund in top 10	30.4%
Total number of stocks	36

Sector analysis



Geographic allocation



PERFORMANCE Past performance does not predict future returns

30/11/2021

Annualised % total return from launch (GBP)

Discrete years % total return (GBP)	Nov '21	Nov '20	Nov '19	Nov '18	Nov '17
Fund (Y class, 0.89% OCF)	6.2	0.1	9.5	-4.4	-
MSCI Emerging Markets Index	3.6	14.7	5.8	-3.6	22.6
IA Global Emerging Markets sector average	4.9	12.4	8.2	-7.1	23.2

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.89% OCF)	0.8	0.9	6.2	16.4	-	35.3
MSCI Emerging Markets Index	-0.6	-1.2	3.6	25.8	7.0	49.5
IA Global Emerging Markets sector average	-1.2	-0.5	4.9	27.7	6.7	46.8

RISK ANALYSIS

30/11/2021

Annualised, weekly, from launch on 23.12.16, in GBP	Index	Sector	Fund
Alpha	0.00	0.00	-0.24
Beta	1.00	1.00	0.84
Information ratio	0.00	0.00	-0.23
Maximum drawdown	-22.63	-22.63	0.80
R squared	1.00	1.00	0.80
Sharpe ratio	0.32	0.32	0.23
Tracking error	0.00	0.00	6.72
Volatility	15.10	15.10	14.20

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. Fund launch date: 23.12.2016. Fund returns are for share classes with a current Ongoing Charges Figure (OCF) of 0.89%; returns for share classes with a different OCF will vary accordingly.

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

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.