Guinness Emerging Markets Equity Income Fund

Investment Commentary - January 2022

About the Fund

Launch date	23.12.2016
Team	Mark Hammonds Edmund Harriss 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 (GBP)

Past performance does not predict future returns

Fund	Guinness Emerging Markets Equity Income Fund
Index	MSCI Emerging Markets
Sector	IA Global Emerging Markets

	1 Yr	3 Yrs	Launch
Fund	4.0	22.7	39.5
Index	-1.6	28.4	48.8
Sector	-0.5	31.3	46.8

Annualised % total return from launch

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. Returns for share classes with a different OCF will vary.
Source: FE fundinfo (Y GBP Dist, 0.89% OCF), bid to bid, total return.

Summary

2021	Fund size
Start of year	£2.7m
End of year	£3.5m

What happened in emerging markets and the World?

- The coronavirus continued to cause significant disruption to economic activity with the emergence of the Delta variant earlier in the year, and then later the Omicron variant at the end of the year.
- Despite the difficulties caused by the coronavirus, economies rebounded, with developed markets benefiting from early vaccination programmes.
- Emerging markets made significant progress in vaccination programmes, speeding up the return to normal.
- Inflation remained a key theme throughout the year as pandemic-induced disruption in many areas of the supply chain met with a surge in demand, putting upward pressure on prices.
- Central bankers around the world adopted more hawkish stances given the economic strength and higher inflation readings.
- The Fed began tapering asset purchases towards the end of the year; markets have continued to increase their expectations for the magnitude of interest rate rises in 2022.
- Oil rallied strongly as the economy bounced back and transportation demand recovered. WTI crude rose 56% over the year.

What happened in the Fund?

- The fund rose 4.0% in 2021 (Y class, in GBP terms) compared to the MSCI Emerging Markets NTR Index which *fell* 1.6%.

- Of the 35 stocks held for the full year, 15 outperformed the benchmark, 20 underperformed. The fund's distribution for the period rose by 3.0% (Class Y GBP Dist). Since 2018, it has grown at a compound annual growth rate of 4.4%.
- After the most recent distribution, the fund trades on a trailing distribution of 3.4%, significantly above the market.
- We bought one new position: Inner Mongolia Yili.
- We sold one position: St Shine Optical.
- The effect of the portfolio change was to increase our Consumer Staples exposure and reduce our weighting to Health Care.
- Valuations for emerging markets ended the year looking reasonable, both on an absolute basis and on a relative basis compared with developed markets.
- At the end of the year the fund traded on 12.5x 2021 earnings and 11.2x 2022 earnings, a marginal premium and a small discount (respectively) to the benchmark, which traded at 12.4x 2021 earnings and 11.7x 2022 earnings.

Summary Review

After a tumultuous year in 2020, volatility declined in 2021 but did not disappear. Emerging markets fell for the year overall, ending 1.6% lower in sterling terms (MSCI Emerging Markets Index). By contrast the fund outperformed, rising 4.0% over the year.

Much of the outperformance can be attributed to the fund's holdings in the Information Technology sector, discussed below, and to one holding in the Health Care sector – China Medical System. The portfolio also benefited from a divergence in performance of the value and growth styles, with the fund tending to have more exposure to the former. After underperforming for some time, the value component of the benchmark index rose 4.9%, outperforming the growth counterpart, which fell 7.6%. Several individual growth stocks with a large weighting in the benchmark index, notably Alibaba and Tencent, performed poorly, and the fund's relative performance was enhanced by not owning them.

On the negative side, the fund suffered from a lack of exposure to very cyclical sectors, in particular the Materials and Energy sectors, which both performed well. Utilities was another area of the market that was strong and to which the fund has no exposure. Within the portfolio, the Financials sector was an area of weakness, along with holdings in the Consumer Discretionary sector.

Emerging markets again underperformed developed markets, with the MSCI World Index rising 22.9% and the S&P 500 in the US gaining 29.8%. Within emerging markets, EMEA (Europe, Middle East and Africa) was the only region to generate a positive return, with the relevant MSCI index rising 19.0% in GBP. Asia fell 4.3% and Latin America was the laggard, falling 7.3%, according to MSCI indices in GBP.

From an income perspective, for 2021 as a whole the fund distribution grew by 3.6% from 2020 to a level just shy of the 2019 level. Over the three years following 2018, the distribution has grown at a compound annual growth rate of 4.9%.

At the portfolio level, of the 32 stocks (from the 36-stock portfolio) that were held throughout both 2021 and 2020:

- 20 increased the dividend
- 1 kept the dividend unchanged
- 11 cut or reduced the dividend (1 of which was effectively a full omission)

Of the 20 stocks that increased the dividend, 13 did so by more than 10%, and 8 of those did so by 20% or more (measured in dividends per share in local currency terms).

Emerging markets show continued progress coming out of the pandemic, as vaccines have been rolled out more widely. Strong demand from developed markets for manufactured goods has supported certain emerging market countries; China is a notable beneficiary as evidenced by its trade surplus reaching record levels. Growth has been seen across Asia in the IT sector in semiconductors and other components, as demand has come from continued global investment in data centres and from networking and communication products, which have been supported by continued strong demand for smartphones and other consumer electronics. The global demand recovery contributed to a rally in commodities, benefiting Latin America. Oil-producing countries have also prospered as the price of crude has rallied on higher demand from travel.

From a portfolio perspective, we have generally seen our portfolio companies deliver consistent results. While all have experienced challenges in some form or another, it is a hallmark of the quality attributes we seek that the companies themselves have resilient business models and management that is equipped with the flexibility to adapt to the prevailing conditions.

When we consider the sources of total return across the portfolio (dividend income, earnings growth and valuation), we believe the fund is attractively positioned in respect of each.

As of mid-January 2022, the portfolio trades on a trailing yield of 3.4% (this includes the fund's most recent distribution).

The implied earnings growth for the portfolio in 2022 is 11%, compared with that for the market of 7%. Looking at the compound growth rates over the next two years, we see a similar picture, with the fund at 11% versus the market at 10%.

From a valuation perspective, at the end of the year the fund traded on 12.5x 2021 earnings and 11.2x 2022 earnings, a marginal premium and a small discount (respectively) to the benchmark which traded at 12.4x 2021 earnings and 11.7x 2022 earnings.

We expect our companies overall to continue to do well 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.

Within our investment process, we place emphasis on the following factors:

- Sustainable competitive advantage – companies must have demonstrated the ability to earn returns on capital above the cost of capital, reflecting a competitive advantage that has persisted over time and that can be harnessed by management to the benefit of shareholders.

- Robust business model – the business needs to have a business model that is resilient to external factors, both at an industry and macro level i.e. the company is able to generate strong cash flows through the cycle, despite facing challenging conditions at times.

- Attractive opportunities for reinvestment and growth – opportunities exist for management to redeploy the capital generated by the existing business at attractive rates. Long-term opportunities for growth exist – these opportunities may offer more moderate (but more consistent and sustainable) growth rates.

- Strong dividend policy – management must be committed to returning a meaningful portion of the capital generated by the business to shareholders.

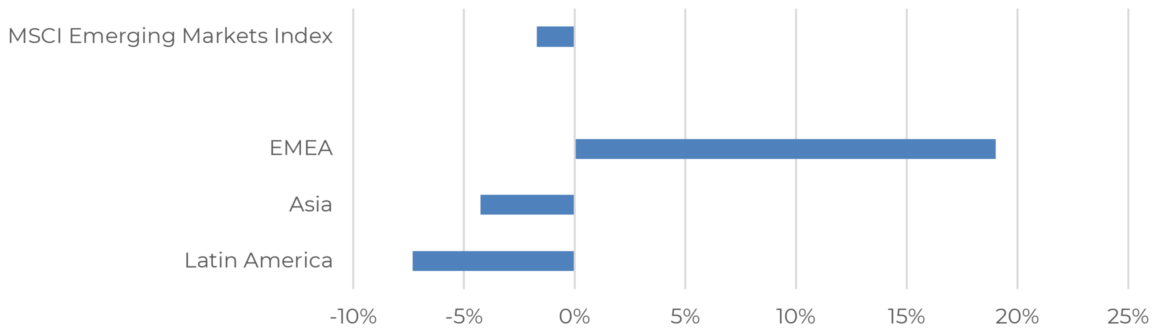
- Attractive valuation – we seek investments that are undervalued by the market. We want valuation changes to be a positive contributor to overall returns, and avoid stocks where they may be a detractor.

We think such an approach works well in emerging markets and is suited to the uncertainties in today's economic environment that face both investors in the region and globally.

Market performance

Within emerging markets, EMEA (Europe, Middle East and Africa) was the only region to generate a positive return, rising 19.0%. Asia fell 4.3% and Latin America was the laggard, falling 7.3%.

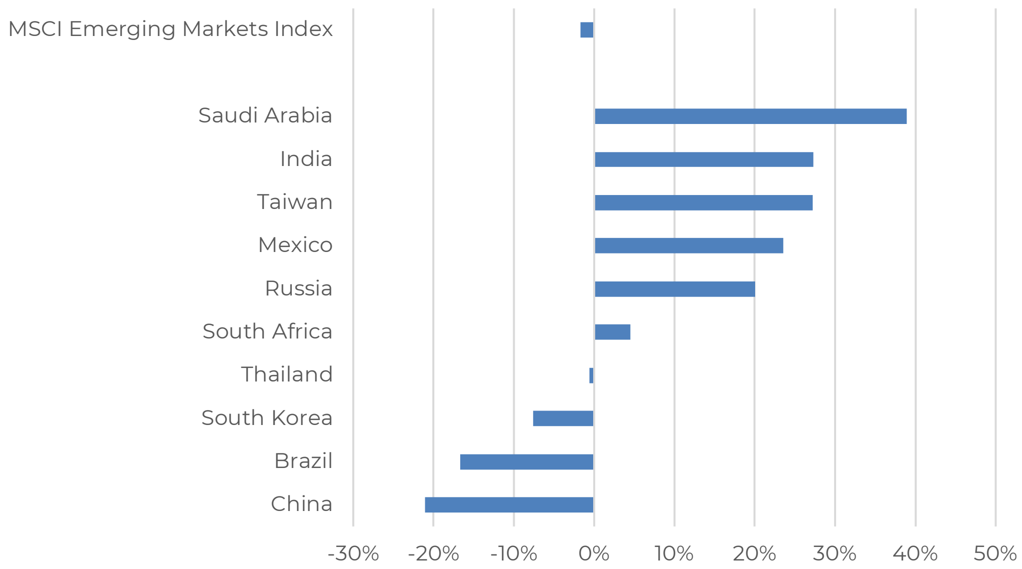
Regional returns (in GBP)



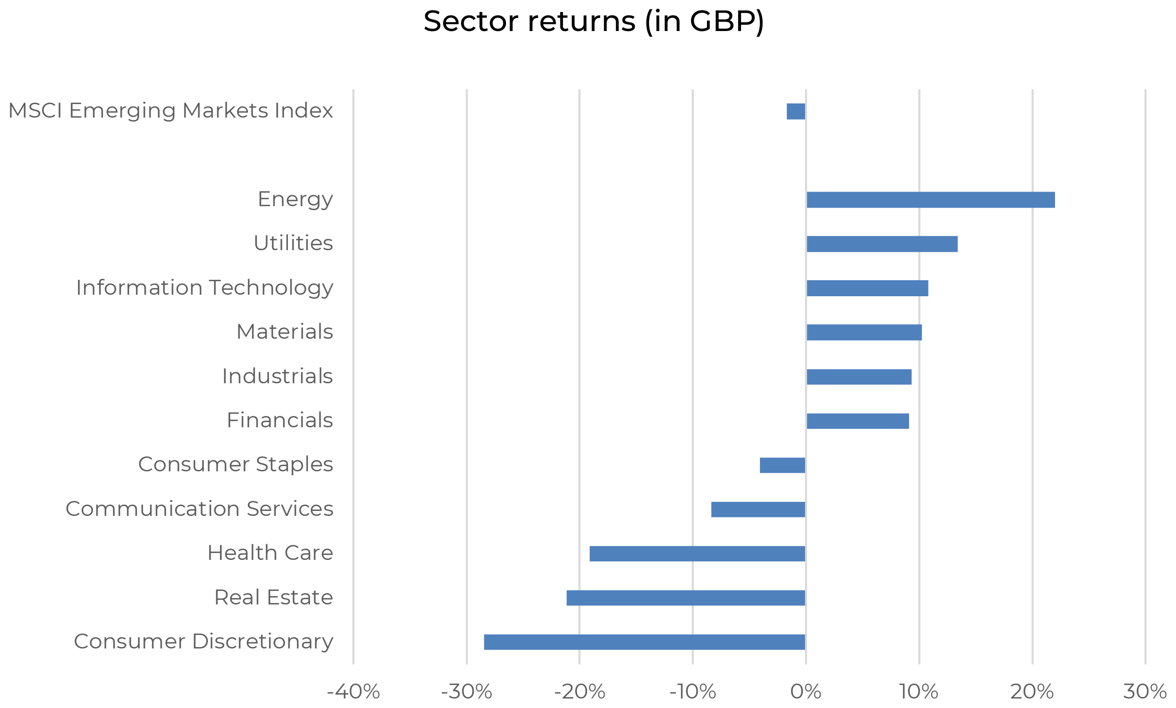
Source: Bloomberg. Data as of 31.12.2021

Looking at the largest countries in the benchmark (as at the end of the year), returns were as follows:

Country returns (largest) (in GBP)



Source: Bloomberg. Data as of 31.12.2021



Source: Bloomberg. Data as of 31.12.2021

In terms of the returns from the largest ten countries in the index, there were significant overall moves in both positive and negative directions, which broadly offset each other.

Saudi Arabia was by some margin the best performer, corresponding with Energy being the best sector. WTI crude ended the year 55.8% higher. Natural gas gained similarly, up 53.6%. A global rebound in travel demand caused oil prices to soar from the relatively low levels seen in 2020. While new variants of covid experienced throughout 2021 threatened to derail the recovery, each incremental wave tended to have a successively smaller impact on demand from transportation. Along with Saudi Arabia, Russia, another country with significant exposure to energy commodities, was among the better performers.

India and Taiwan were the second and third-best performers among the larger countries.

India saw a strong market rebound, although much of this was driven by re-rating. Earnings estimates for 2021 and 2022 were revised higher over the course of the year, but by a relatively modest 4.9% and 6.4% respectively. India has made strong progress in its vaccination roll-out, with at least 61% of the population having received one shot. Monetary policy has also been supportive. Optimism is high that 2022 will be a year of recovery, stimulated by the release of pent-up demand among consumers. This feeling has led to generally much higher valuation multiples, which has reduced the attractiveness of Indian stocks in the universe as potential opportunities. On the other hand, the portfolio has benefited this year from its holdings in Indian IT services companies (discussed below).

In contrast to India, Taiwan saw significant positive upwards earnings revisions over 2021, with earnings estimates for 2021 up 47.4% and for 2022 up 32.2%. The MSCI Taiwan Index is dominated by TSMC, which represented 43.3% of the total at year-end. The continuing supply crunch in the semiconductor sector, fuelled partly by the after-effects of covid and compounded by very strong demand for semiconductors across a wide variety of industries, led to significant upward revisions in TSMC's forecast earnings over the year. We hold TSMC in the fund.

China was the weakest market, though this followed a respectable performance last year. The crackdown on high-profile Chinese internet companies weakened sentiment dramatically from the middle of year onwards, with weakness in Alibaba's stock price in particular having an outsized negative impact on overall market returns. China's economy has slowed after a period of boom activity earlier in the year. In the second half of the year, the authorities acted to reduce the build-up of speculative activity in the real estate market, tightening the financial criteria that developers are required to meet. China Evergrande was the notable victim of the more onerous measures, with events culminating in a default by the company near the end of the year.

Once again in China we have seen the ebb and flow of intervention in the economy by the authorities – tapping the brakes to slow activity, then releasing them again if they have slowed too much. In the property market, we see policy makers looking to bring stability, avoiding a collapse that would not be in anyone's interests. Within the internet sector, while some companies are likely to be more affected than others, all will have to get used to operating in a more regulated space (as seems also to be the case in the US and in Europe). Chinese entrepreneurs have always had to be mindful of the ultimate limits of their activity – the new regulations make those limits more apparent.

Brazil was also weak, despite strongly positive earnings revisions. The Brazilian real fell 6.9% over the year against the dollar, adding to the drag of the local market. Political turbulence in the country in the run up to elections later this year has severely impacted sentiment. Concern over a lack of fiscal discipline following Covid-related stimulus has been compounded by a collapse in Bolsonaro's popularity rating and the threat of further spending (in the form of election campaign commitments) to come.

Inflation in Brazilian consumer prices has risen sharply over the year, although is showing some recent signs of flattening off. Producer prices saw even greater increases, though these have since unwound to an extent. The central bank has been hiking rates; however, this has come at a time of a contraction in industrial production and a sharp decline in retail sales. Added to the political noise, this has made economic forecasting all the more difficult.

Within what is overall an uncertain macroeconomic environment in Brazil, we remain watchful for individual stock opportunities which have been overlooked by the market – particularly where these are not directly dependent on the macroeconomic cycle.

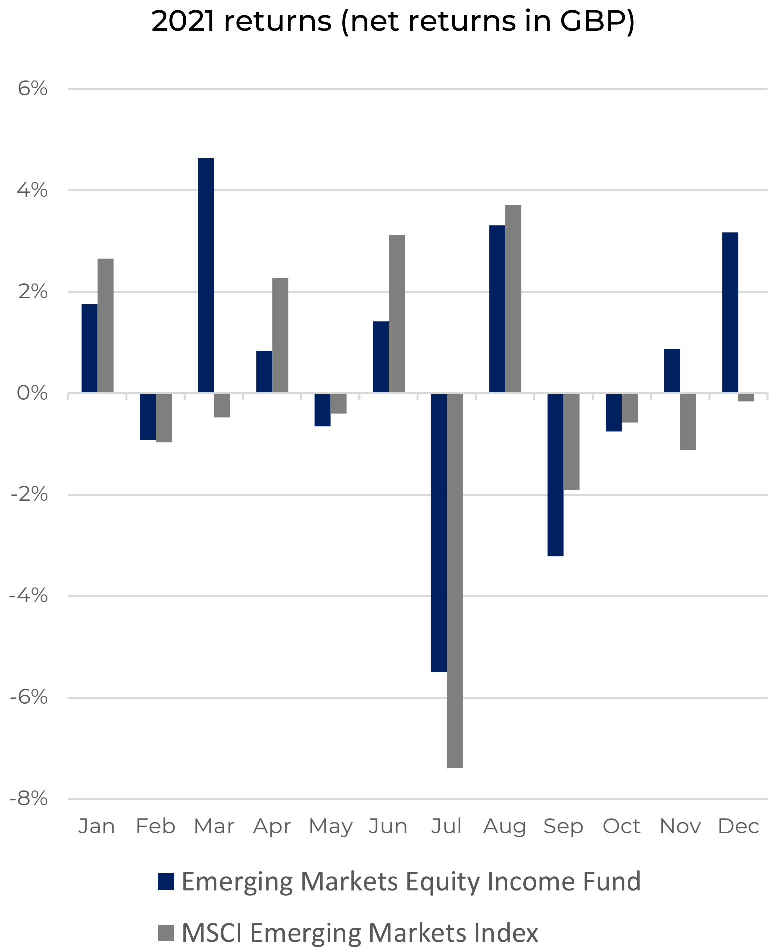
Fund performance

Overall, the Fund outperformed the benchmark over 2021, rising 4.0% (Y GBP Dist class, in GBP) compared to the MSCI Emerging Markets NTR Index which *fell* 1.6%.

Much of the outperformance can be attributed to the fund's holdings in the Information Technology sector, discussed below, and also to one holding in the Health Care sector – China Medical System. The portfolio also benefited from a divergence in performance of the value and growth styles, with the fund tending to have more exposure to the former. After underperforming for some time, the value component of the benchmark index rose 4.9%, outperforming the growth counterpart, which fell 7.6%. Several individual growth stocks with a large weighting in the benchmark index, notably Alibaba and Tencent, performed poorly, and the fund's relative performance was enhanced by not owning them.

On the negative side, the fund suffered from a lack of exposure to very cyclical sectors, in particular the Materials and Energy sectors, which both performed well. Utilities was another area of the market that was strong and to which the fund has no exposure. Within the portfolio, the Financials sector was an area of weakness, along with holdings in the Consumer Discretionary sector.

Relative performance this year was good, and more closely matched our expectation for the pattern of returns. The following chart shows monthly performance of the fund versus the benchmark:



Source: FE fundinfo

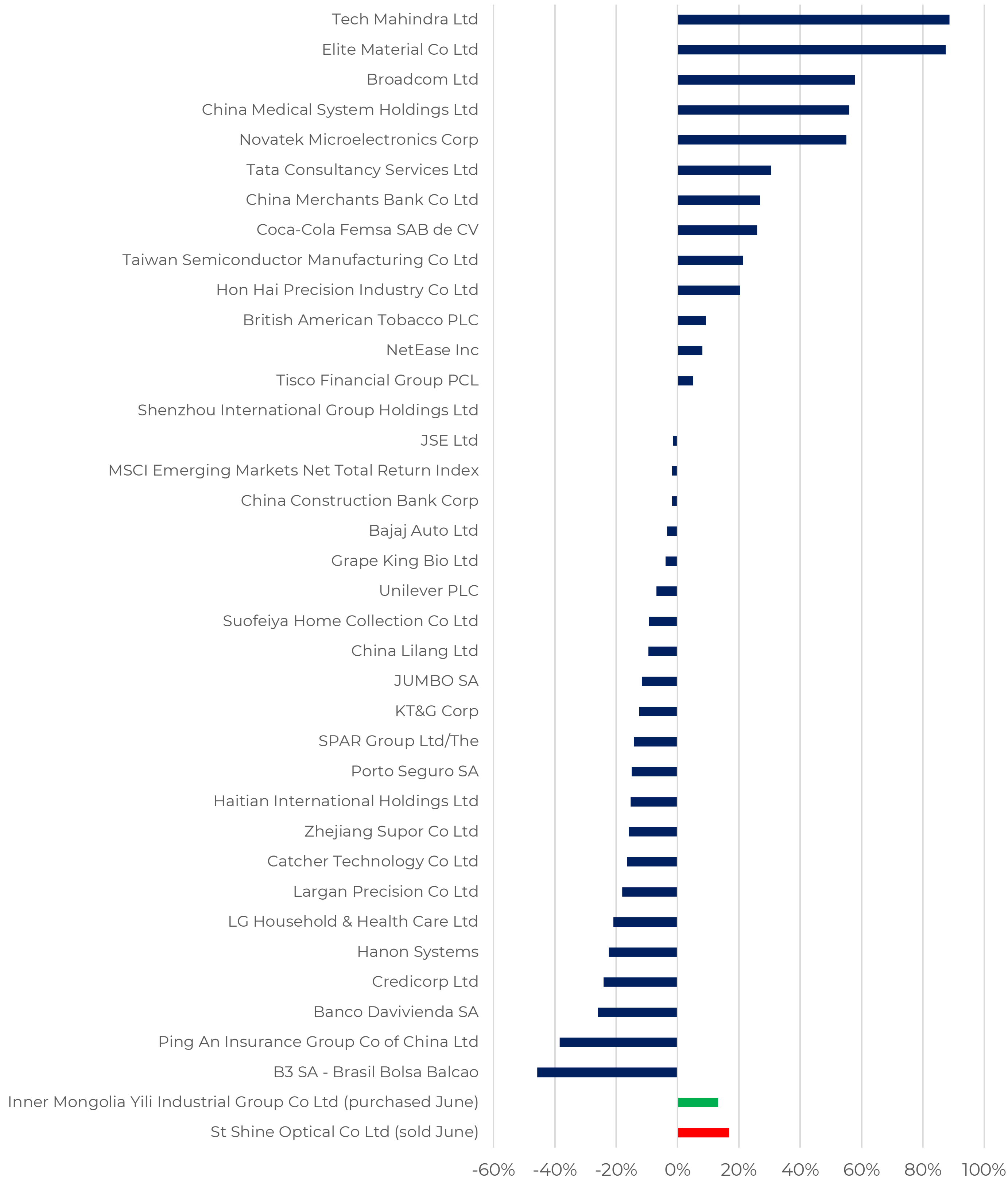
We would typically expect the fund to outperform in weaker markets and underperform in stronger markets. This pattern was in evidence over several months last year, notably in the June-July period, when the fund lagged a rising market and then outperformed in the sell-off.

We saw strong performance around results time in March as the portfolio companies tended to deliver consistent operating results. Our investment approach is to invest in quality companies that we believe are likely to continue to perform well, where these are available at a discount to intrinsic value. It is encouraging, therefore, when companies report positive results such that the market is forced to reappraise their prospects, and we look for this pattern around results time.

The fourth quarter was another period of strong outperformance. Partly this was due to continued strong individual stock returns – several companies in the IT sector that had performed well over the year continued to deliver good results. A recovery in our domestic Chinese A-shares also helped. In general, we have seen signs that the recovery in value stocks is no longer confined to those with commodity exposure. We are optimistic that value as a style will continue to be in favour, helping to close some of the structural valuation gaps that we see within the portfolio.

Stock performance and commentary

Individual stock performance in 2021 (total return GBP)



Source: Bloomberg. Data as of 31.12.2021

Leaders

Within the portfolio, the best-performing stocks were Tech Mahindra (+88.7% in GBP), Elite Material (+87.4%) and Broadcom (+57.8%). All three companies were the beneficiary of a recovery in spending on IT equipment and services following the interruption caused by Covid-19 in 2020.

Tech Mahindra, an Indian IT services company, benefited from a strong demand environment, with clients globally continuing projects to digitalise operations and move services to the cloud. Some of these assignments have been initiated or accelerated due to the pandemic, and in other cases represent work that was paused due to Covid is being resumed. Travel restrictions are still providing somewhat of a headwind, leading to increased staff costs as projects are sourced locally. Nevertheless, the company is generating significant levels of cash flow and has a strong pipeline of future work.

Elite Material is a producer of environmentally friendly printed circuit board materials, with market dominance in several areas. The company's exposure to the server, network infrastructure and high-performance computing sectors contributed to strong results in 2021, and the outlook for 2022 is also favourable, with spending expected to remain high in these segments.

Broadcom continues to report good results, buoyed by strong demand for networking products, such as those used in data centres. Wireless products (including those used in 5G applications) have also been in high demand. In the software segment, the company's integration of recent acquisitions has progressed well. December saw the company announce a 14% increase in the dividend and plans to return further cash to shareholders with a stock buyback, giving the market increased confidence in management's capital allocation strategy.

Laggards

The worst-performing stocks were B3 (–45.8% in GBP), Ping An Insurance (–38.4%) and Banco Davivienda (–25.9%).

B3, the Brazilian stock exchange and financial services company was weak alongside a falling Brazilian market, though the decline in the former was more pronounced. After a strong performance in local currency terms in 2020, the stock gave up much of the returns in 2021. Valuation multiples were compressed as the strong operating and financial performance were priced in and forecast growth rates slowed from the high level that investors had enjoyed recently. B3 is an attractive business, with the benefit of scale acting as a barrier to entry. However, the stock is volatile and tends to amplify movements in the Brazilian equity markets.

Ping An Insurance has experienced a slowing in sales of new business in the China life insurance product segment. The company is restructuring its sales force in order to improve productivity (output per agent), although this is taking some time. The demand environment in the market has also been weaker. Nevertheless, other parts of the business are performing well, and the recent increase in the dividend can be viewed in part as a reflection of management's confidence in a favourable longer-term outlook.

Banco Davivienda, a Colombian bank, suffered as the Colombian peso weakened over the first half of 2021. Total returns on the stock in local currency returns for 2021 were –12.6% versus –26.5% in USD terms. Results for the company overall have been satisfactory, though the banking sector in the country is operating in a highly uncertain environment. The withdrawal of loan relief programmes in the country has put asset quality under pressure, though the bank is relatively well capitalised and has the ability to absorb some losses.

Income Review

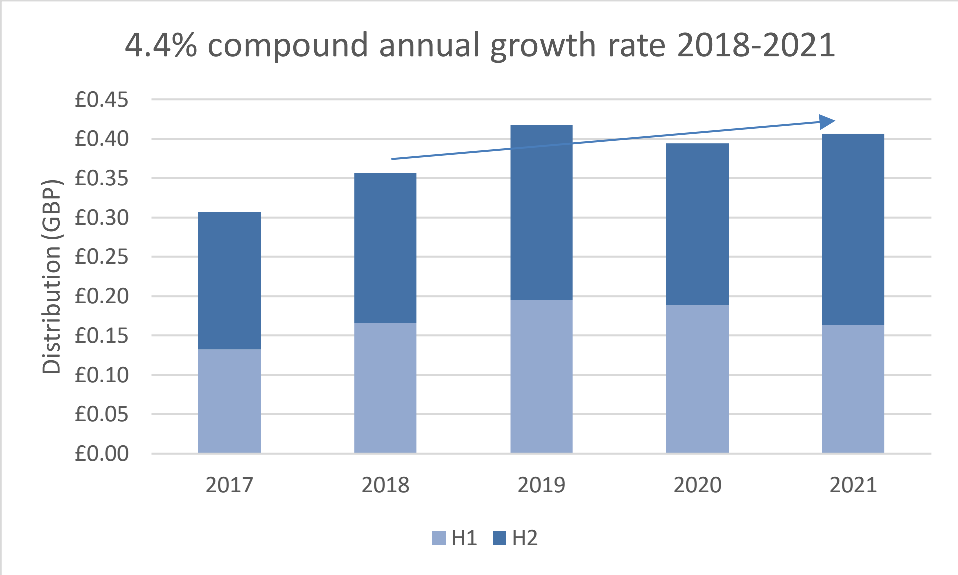
The table below shows the amount distributed by the fund relating to each half year period:

	2017	2018	2019	2020	2021
H1	0.1321	0.1654	0.195	0.1884	0.1636
H2	0.175	0.1913	0.2226	0.206	0.2425
Total	0.3071	0.3567	0.4176	0.3944	0.4061

(Class Y GBP distribution)

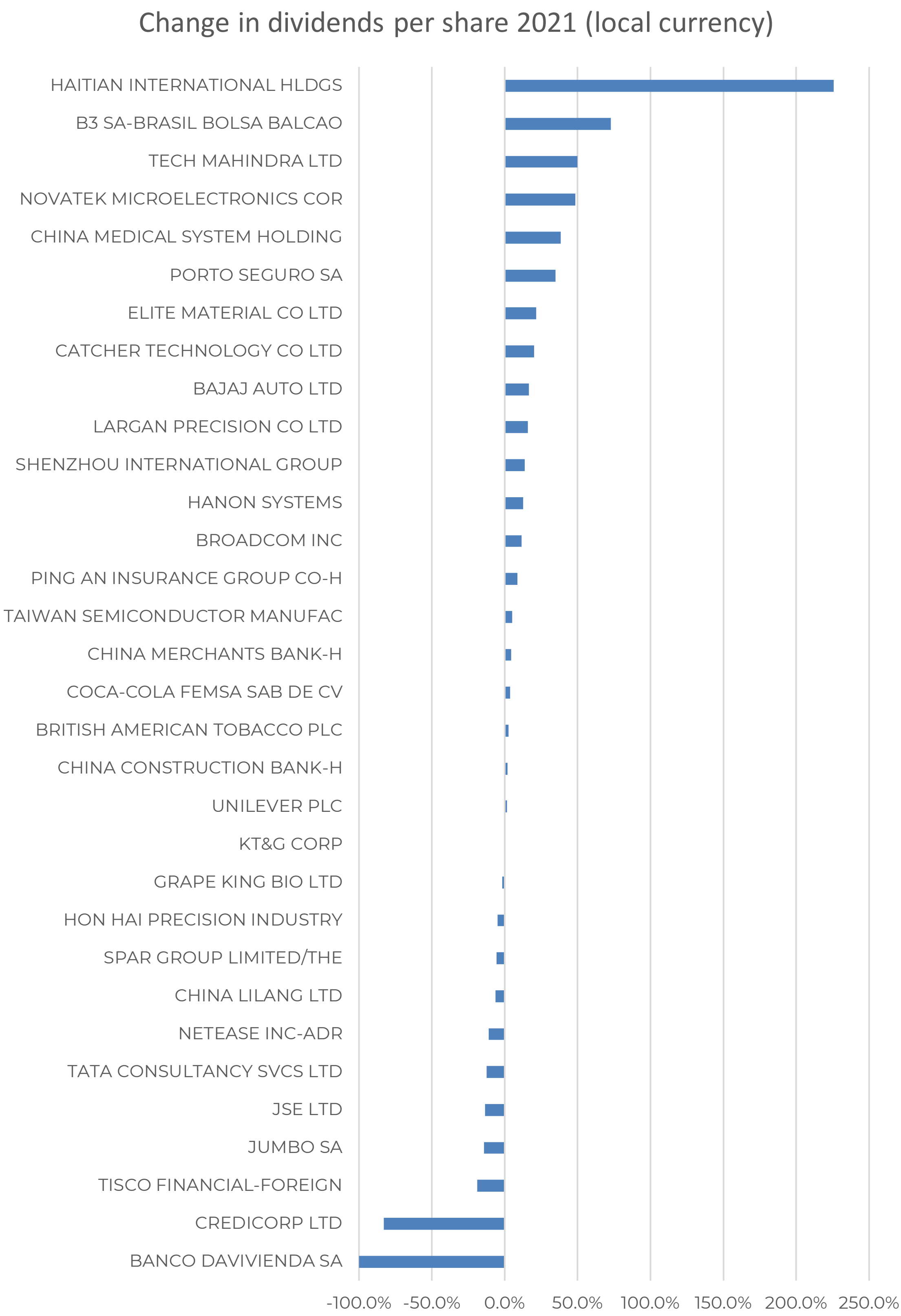
As shown, the 0.2425 GBP distribution just announced represents the largest single amount declared so far. For 2021 as a whole the distribution totalled 0.4061, representing 3.0% growth versus 2020, and a 2.8% decline from the 0.4176 paid for 2019.

The following chart shows the progression of the distribution over time:



As a more conservative calculation of the growth in the distribution, over the three years following 2018, the distribution has grown at a compound annual growth rate of 4.4%. (If we were to take 2017 as the starting point, the compound rate would be 7.2%.)

We expect dividends to grow over time, though not necessarily in every 12-month period. As an illustration of the wide range of outcomes that are possible, the following table shows the change in dividends in 2021 versus 2020 for companies in the fund held for both full years:



Source: Bloomberg. Data as of 31.12.2021

(Chart shows dividends per share in local currency terms for each stock. Dividends allocated according to amounts going ex in each calendar year.)

We exclude from the analysis above the three stocks that were bought in 2020 and the one stock that was bought in 2021 (and the four stocks that they replaced) to ensure as close as possible to a like-for-like comparison. Of the remaining 32 stocks (from the 36-stock portfolio):

- 20 increased the dividend
- 1 kept the dividend unchanged
- 11 cut or reduced the dividend (1 of which was effectively a full omission)

Of the 20 stocks that increased the dividend, 13 did so by more than 10%, and 8 of those did so by 20% or more.

The arithmetic average change across the 32 stocks was an increase of 10.6%, or 7.4% if the top and bottom three data points are excluded as outliers. The median increase was 4.1%, which more closely matches the 3.6% increase in the overall distribution from 2020.

There are several reasons why the growth in the fund distribution may differ from that of the underlying holdings:

1. Portfolio weighting – how close each position is to neutral weight
2. Timing of portfolio changes – whether a stock is being bought or sold prior to or after a dividend payment. This effect is particularly pronounced for stocks that pay single or 'bullet' payments each year.
3. Currency movements

In addition, it is worth noting that the analysis above is based on calendar years (using ex-date as a reference point) – many companies have a reporting period other than the calendar year.

Individual company comments

The largest dividend increases were Haitian International (+226%), B3 (+72.6%) and Tech Mahindra (+50.0%).

Haitian International's dividend surged, owing to the payment of a special dividend in 2021. Excluding this, the dividend would still have grown by 51%, ranking in second place. A recovery in manufacturing supported demand for the company's injection moulding machines, with strong contributions from healthcare and packaging applications. It was the recovery in the domestic market in China in the first part of the year that had the biggest impact. Later on in the year, no interim dividend was paid, which management attributed to the uncertainty surrounding the evolution of the pandemic. However, the dividends attributable to earlier in the year were more than sufficient to compensate. Management have signalled their intention – assuming the situation allows – to resume payments with a dividend pay-out ratio at a higher level than before.

While B3 disappointed from a total return perspective, the silver lining was a significant uplift in the income payment. The company's financial results have been very strong over the past two years, spurred by elevated trading volumes. Poor performance in the stock is largely as a result of investors having to lower expectations following the trading boom witnessed of late.

Tech Mahindra's dividend increased due to an additional special dividend. Impressively, this came on top of a dividend that had already doubled in 2020 versus 2019. As described above, the company is benefiting from a strong rebound in demand for IT services, as the recovery from the pandemic recovers and corporates have lifted spending on IT. Tech Mahindra's main area of focus is telecommunications, which has seen significant investment as 5G technology is deployed.

The biggest dividend declines were Banco Davivienda (-100%), Credicorp (-83.2%) and Tisco Financial (-18.7%).

It is unsurprising that the two largest declines in dividend payments came from our two Latin American bank holdings – Banco Davivienda and Credicorp – given the difficult circumstances these banks have operated in for the past two years. Davivienda made a small change in the par value of the stock, but essentially the dividend should be regarded as omitted for 2021. Credicorp paid a much-reduced dividend on the prior year. We expect both companies to resume dividend payments to a more normal level along with the recovery seen in profitability. Davivienda is likely to return to a dividend pay-out ratio of around 30% and comments from Credicorp's management indicate an intention to increase the dividend payments as returns improve, given that capital levels are above target.

Tisco Financial reduced its dividend owing to a regulatory restriction that distributions from bank earnings should be limited to 50% of prior year levels. Increases from other divisions meant that the decline was limited to 19% overall. Market forecasts are for the dividend in 2022 to exceed the pre-pandemic level.

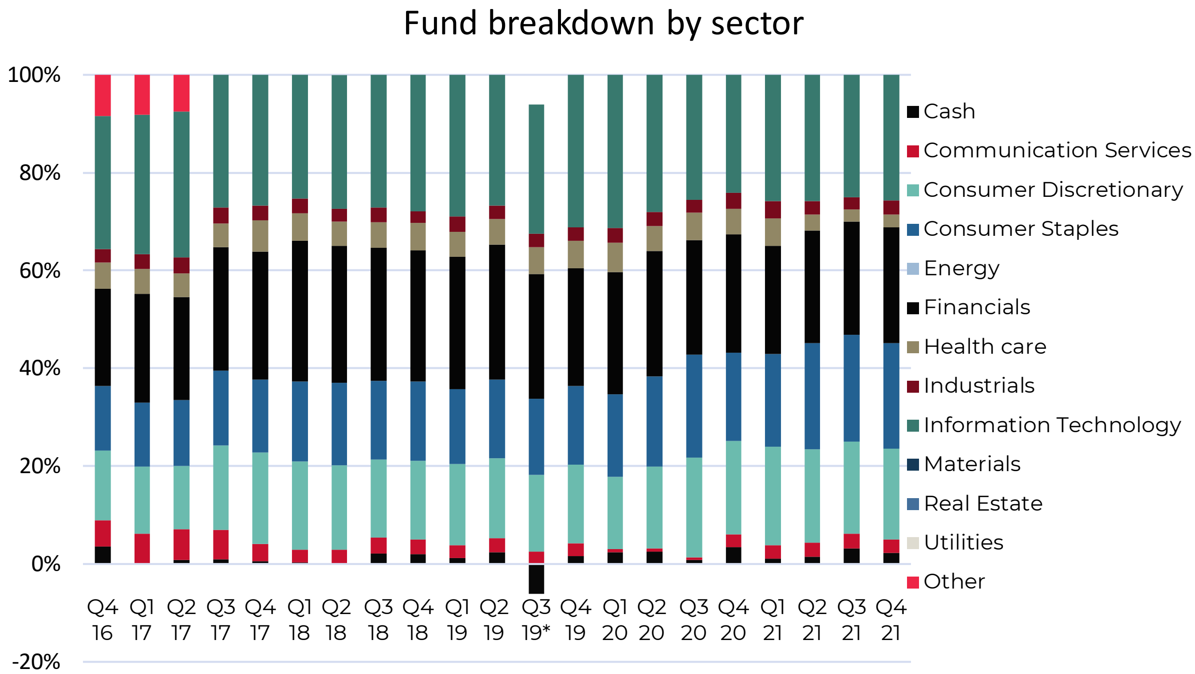
Portfolio Changes

Portfolio activity was lower in 2021 than in the preceding two years, and we made just one switch in the portfolio over the course of the year. The change was made in the second quarter, selling St Shine Optical and replacing it with Inner Mongolia Yili, a domestically-listed China A-share (which we access in Hong Kong through the Stock Connect programme).

Yili is a stock we hold in the Asian Equity Income Fund, and is a producer of milk and dairy products, including fresh milk, UHT milk, milk powder, yoghurt and cheese. The company benefits from a combination of both high market share and a favourable structural trend, with growth in consumption expected over time.

St Shine has suffered from reduced demand owing to the pandemic, and margins have declined as the customer mix has shifted over time. Increased competition has also been a factor in our decision to sell. We took advantage of some of the price volatility in the stock and exited amid a run-up in the stock price.

Portfolio Positioning

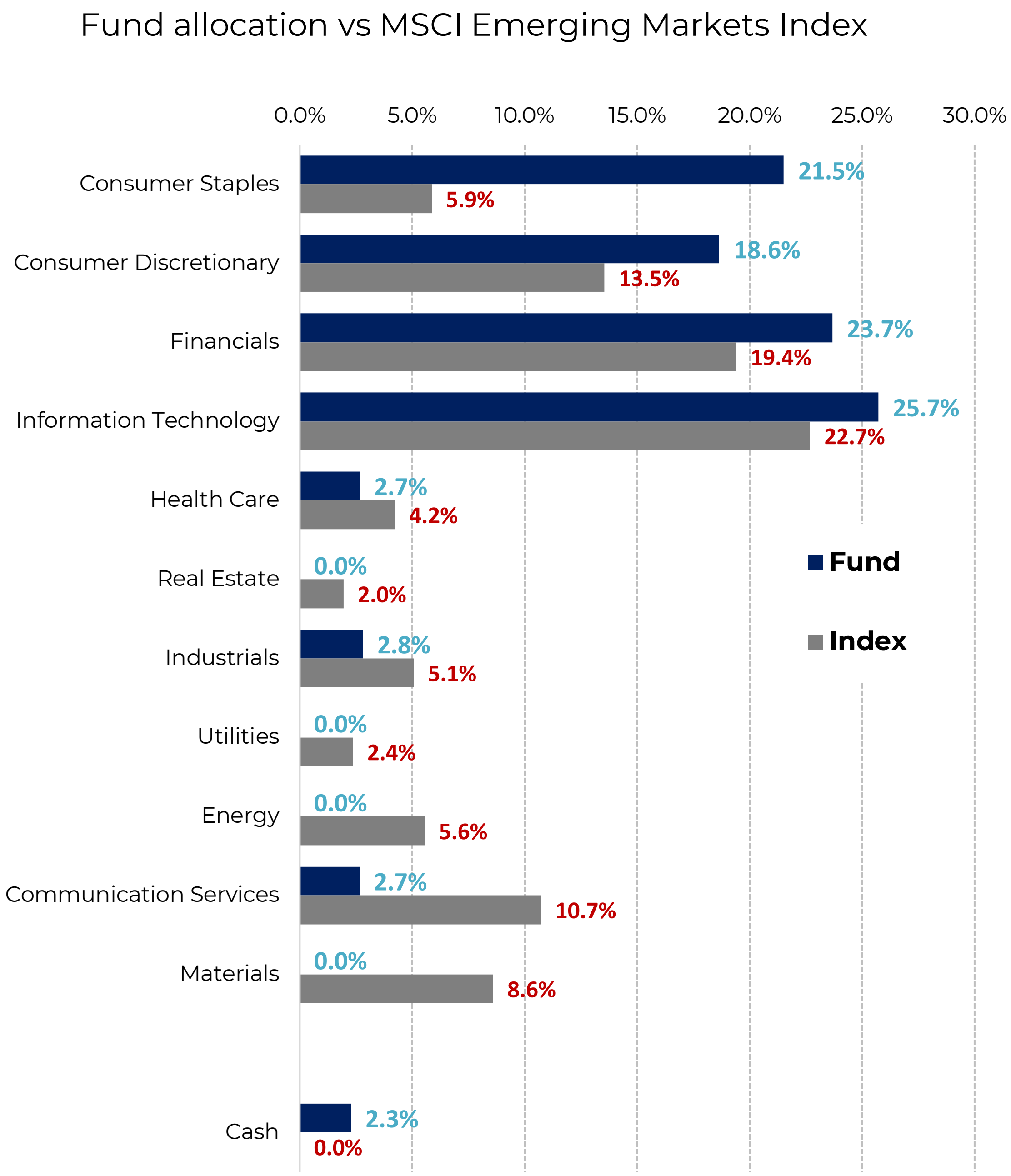


Source: Guinness Global Investors. Data as of 31.12.2021. *Outflow in Q3 2019

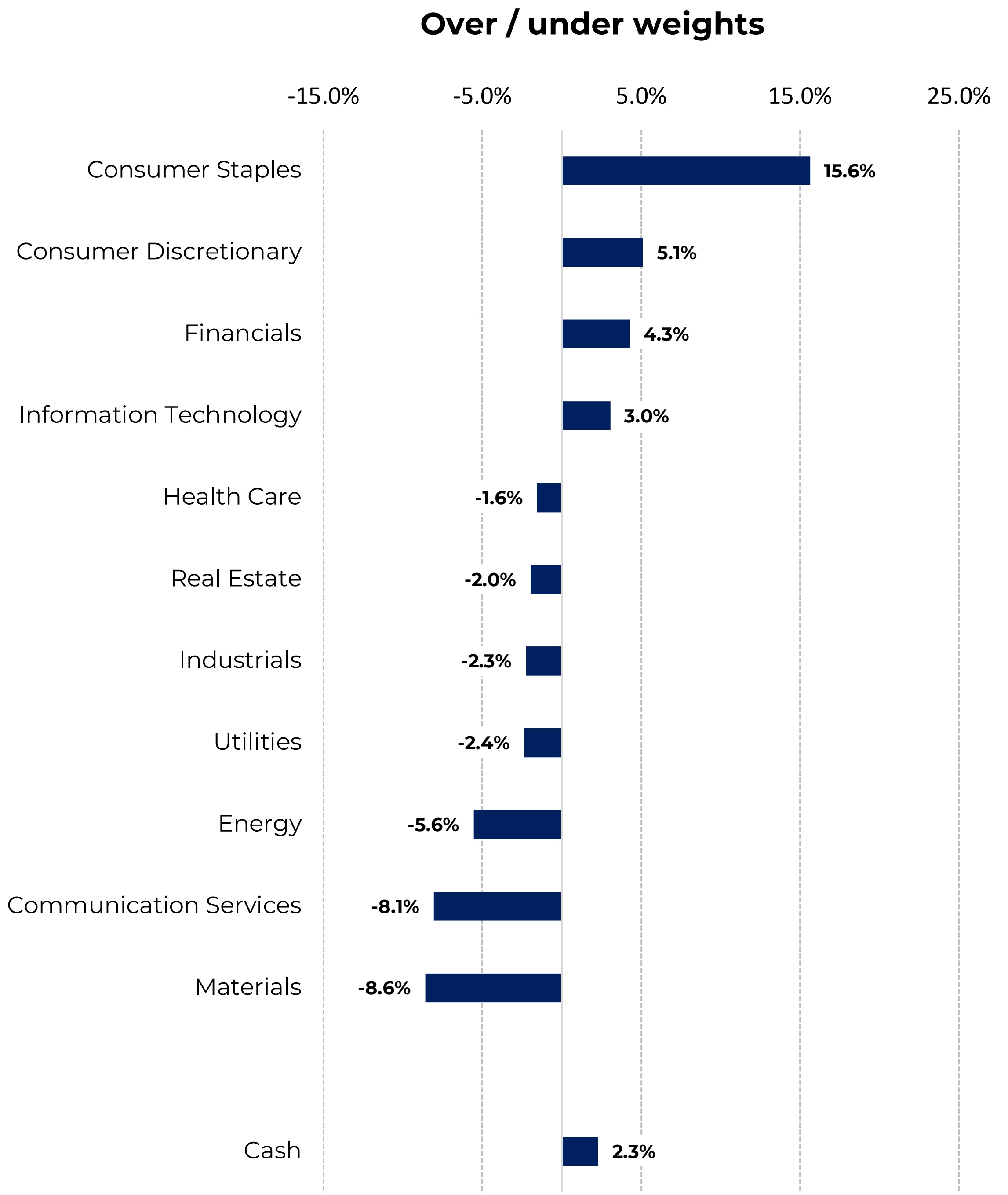
(Other category refers to an India ETF held for the first six months of the Fund's life which was replaced by direct Indian holdings once local market access was granted.)

Guinness Emerging Markets Equity Income Fund

Sector weights are compared to the benchmark as follows:



Source: Bloomberg, Guinness Global Investors. Data as of 31.12.2021



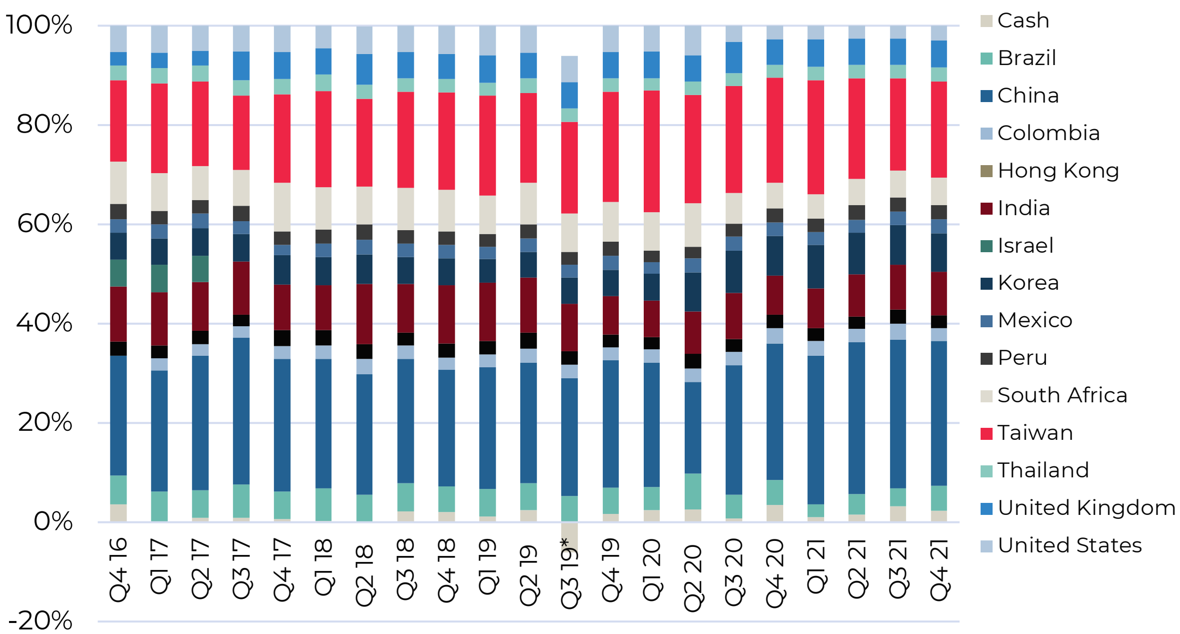
Source: Bloomberg, Guinness Global Investors. Data as of 31.12.2021

The fund has no exposure to the Energy, Materials, Real Estate or Utilities sectors. By weight, the fund is significantly overweight Consumer Staples, as well as the Consumer Discretionary, Financials and Information Technology sectors. The fund is significantly underweight Materials, Communication Services and Energy.

The effect of the switch during the year was to decrease exposure to Health Care by one position (2.75% at neutral weight) and to increase exposure to Consumer Staples. By *number* of companies, our exposure at the end of 2021 and the preceding four years was as follows:

	2021	2020	2019	2018	2017
Financials	9	9	9	10	9
Information Technology	9	9	11	10	11
Consumer Staples	8	7	6	6	6
Consumer Discretionary	7	7	6	6	6
Communication Services	1	1	1	1	1
Health care	1	2	2	2	2
Industrials	1	1	1	1	1
Energy	0	0	0	0	0
Materials	0	0	0	0	0
Real Estate	0	0	0	0	0
Utilities	0	0	0	0	0
Total	36	36	36	36	36

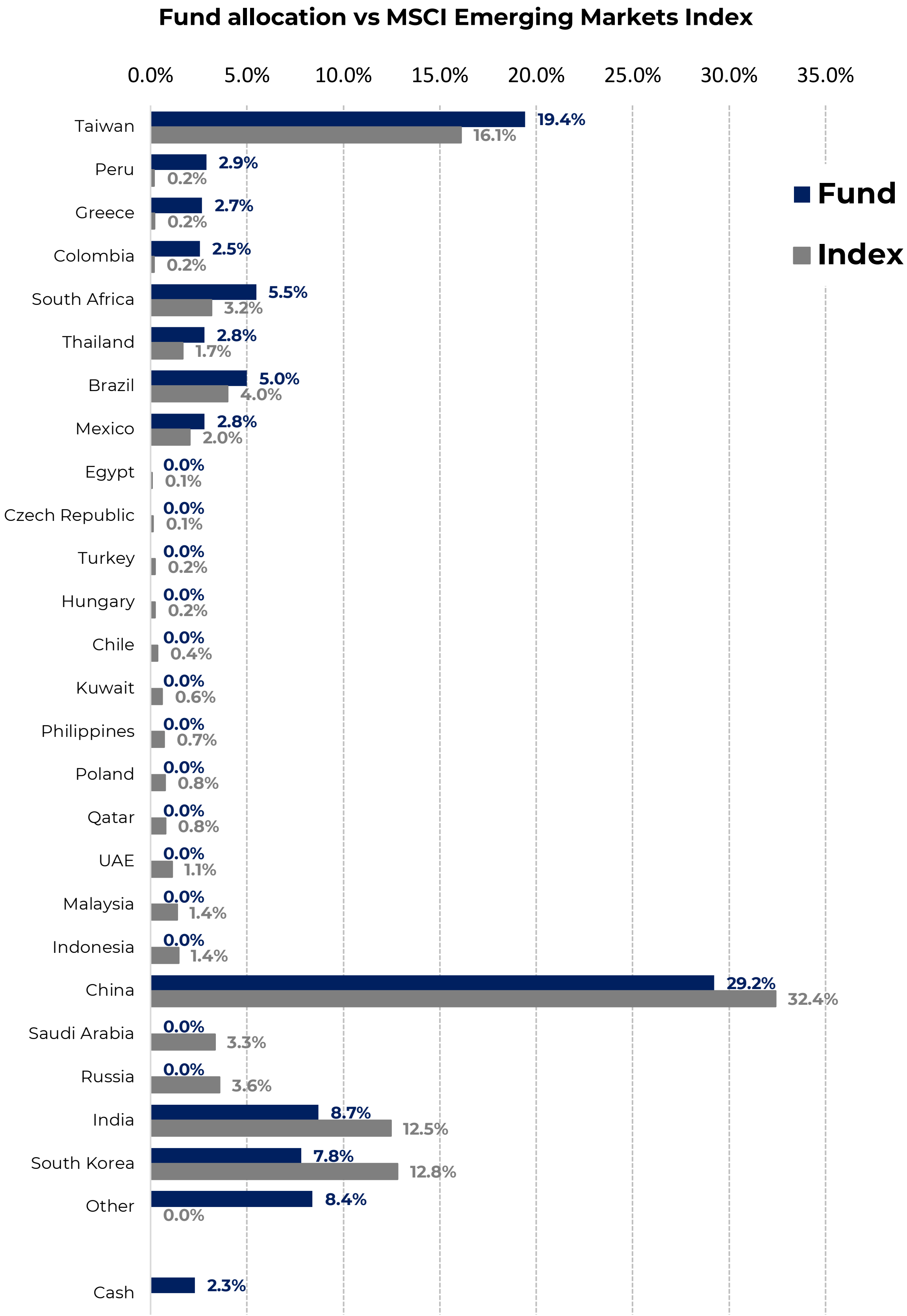
Fund breakdown by country



Source: Guinness Global Investors. Data as of 31.12.2021 *Outflow in Q3 2019

Guinness Emerging Markets Equity Income Fund

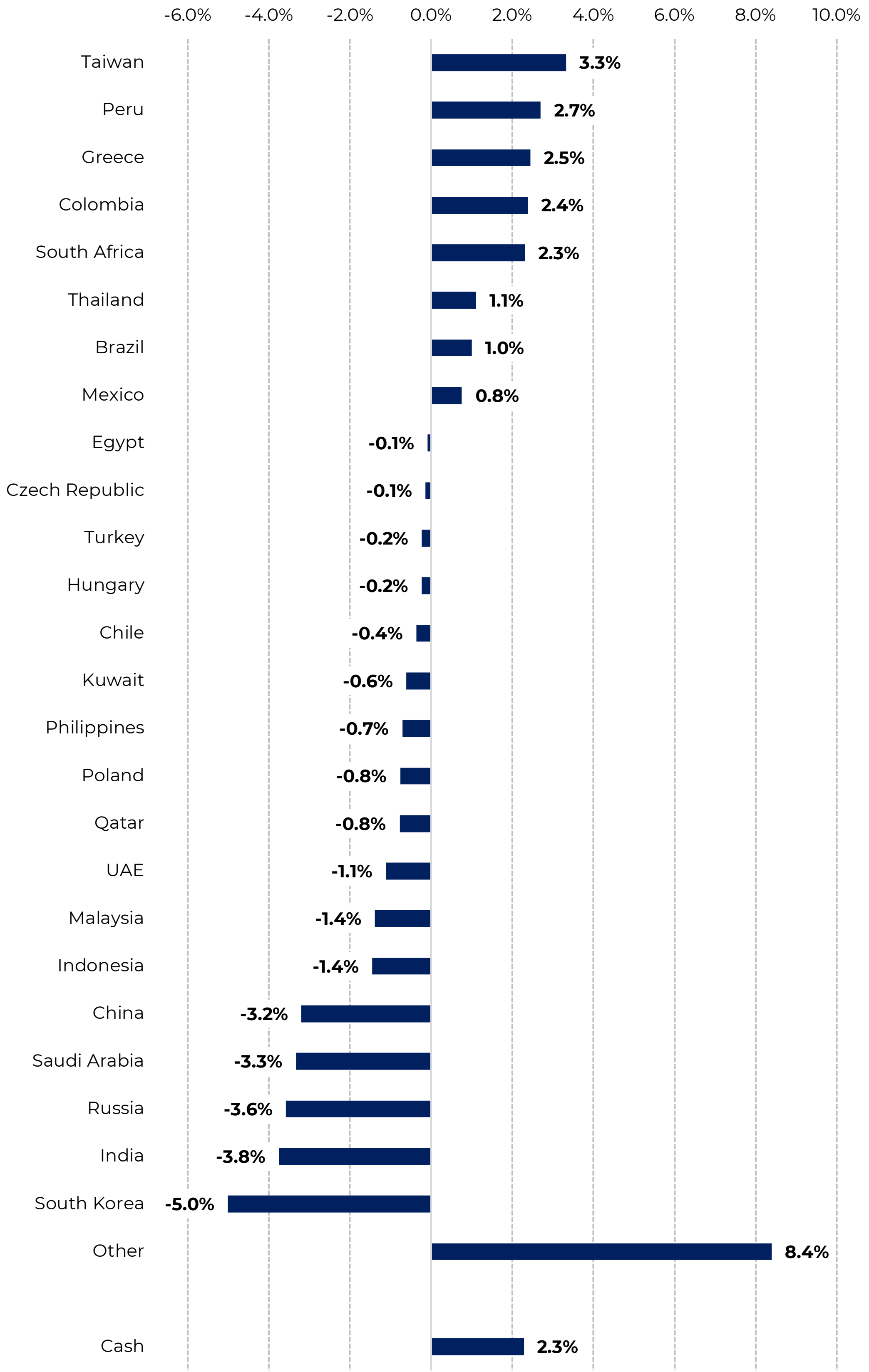
Country weights are compared to the benchmark as follows:



Source: Bloomberg, Guinness Global Investors. Data as of 31.12.2021

Guinness Emerging Markets Equity Income Fund

Over / under weights



Source: Bloomberg, Guinness Global Investors. Data as of 31.12.2021

The fund's biggest overweight is Taiwan, and the 'other' category, which reflects the fund's two UK holdings and one US holding that derive more than 50% of their revenue from emerging markets. The biggest underweights are to South Korea, India and Russia.

Geographic exposures shifted marginally over the course of the year. The effect of the switch during the year was to increase exposure to China by one position and reduce exposure to Taiwan. Again, by *number* of companies, our exposure at year-end 2021 and the preceding four years was as follows:

	2021	2020	2019	2018	2017
China	11	10	9	9	9
Taiwan	7	8	8	7	7
India	3	3	3	4	4
Korea	3	3	2	2	2
Brazil	2	2	2	2	2
South Africa	2	2	3	3	3
United Kingdom	2	2	2	2	2
Colombia	1	1	1	1	1
Greece	1	1	1	1	1
Mexico	1	1	1	1	1
Peru	1	1	1	1	1
Thailand	1	1	1	1	1
United States	1	1	2	2	2
Total	36	36	36	36	36

From a regional perspective, the switch did not alter our allocations. The position as year-end was as follows:

	2021	2020	2019	2018	2017
Asia	25	25	23	23	23
Latin America	5	5	5	5	5
EMEA	3	3	4	4	4
Other	3	3	4	4	4
Total	36	36	36	36	36

Outlook

As the world begins to look beyond the pandemic, attention has turned to its after-effects. Supply chain problems have been rife for much of 2021 and the disruption they have caused has fed through into higher inflation. After initially conveying the view that much of the inflation being observed was transitory, it has become apparent that its effects are likely to continue to be felt for some time. Accordingly, more prompt action has been demanded of central bankers, who face a tricky challenge in raising rates more quickly without upsetting the economy or financial markets.

Emerging markets show continued progress coming out of the pandemic, as vaccines have been rolled out more widely. Strong demand from developed markets for manufactured goods has supported certain emerging market countries, with China a notable beneficiary, as evidenced by its trade surplus reaching record levels. Growth has been seen across Asia in the IT sector in semiconductors and other components, as demand has come from continued global investment in data centres, and networking and communication products, which have been supported by continued strong demand for smartphones and other consumer electronics. The global demand recovery contributed to a rally in commodities, benefiting Latin America. Oil-producing countries have also prospered as the price of crude has rallied on higher demand from travel.

From a portfolio perspective, we have generally seen our portfolio companies deliver consistent results. While all have experienced challenges in some form or another, it is a hallmark of the quality attributes we seek that the companies themselves have resilient business models, and management that are equipped with the flexibility to adapt to the prevailing conditions.

As investors we emphasise individual company analysis and stock selection, rather than making macro forecasts and top-down allocation decisions. Instead of making predictions about the future direction of events, we look at the portfolio metrics to guide our assumptions about prospective future returns. When we consider the sources of total return across the portfolio (dividend income, earnings growth and valuation), we believe the fund is attractively positioned in each respect.

As of mid-January 2022, the portfolio trades on a trailing yield of 3.4% (this includes the fund's most recent distribution).

The implied earnings growth for the portfolio in 2022 is 11%, compared with that for the market of 7%. Looking at the compound growth rates over the next two years, we see a similar picture, with the fund at 11% versus the market at 10%. In general, the market tends to exhibit more volatility in earnings (in both directions), driven by the more cyclical nature of some of its constituent companies. We typically seek companies with more consistent earnings profiles – often those companies that tend to benefit more from structural than cyclical tailwinds.

From a valuation perspective, at the end of the year the fund traded on 12.5x 2021 earnings and 11.2x 2022 earnings, a marginal premium and a small discount (respectively) to the benchmark which traded at 12.4x 2021 earnings and 11.7x 2022 earnings.

We expect our companies overall to continue to do well 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.

Portfolio managers

Edmund Harriss

Mark Hammonds

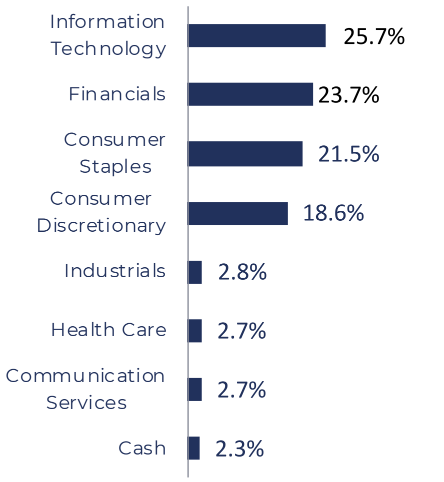
Guinness Emerging Markets Equity Income Fund

Portfolio

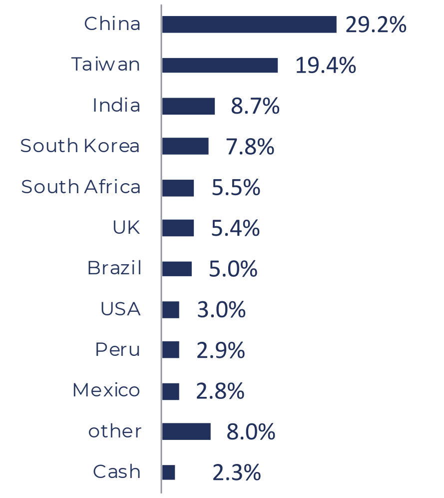
Fund top 10 holdings

Largan Precision	3.3%
Tech Mahindra	3.2%
Broadcom	3.1%
Suofeiya Home Collectior	3.1%
Credicorp	3.0%
TATA Consultancy Service	2.9%
Novatek Microelectronics	2.9%
Haitian International Hold	2.9%
Coca-Cola Femsa	2.9%
Tisco Financial Foreign	2.8%
% of Fund in top 10	30.0%
Total number of stocks	36

Sector analysis



Geographic allocation



Performance

Past performance is not a guide to future returns

Annualised % total return from launch (GBP)

Fund (Y class, 0.89% OCF)

MSCI Emerging Markets Index

IA Global Emerging Markets sector average

Discrete years % total return (GBP)	Dec '21	Dec '20	Dec '19	Dec '18	Dec '17
Fund (Y class, 0.89% OCF)	4.0	3.4	14.2	-9.8	25.8
MSCI Emerging Markets Index	-1.6	14.7	13.9	-9.3	25.4
IA Global Emerging Markets sector average	-0.5	13.7	16.0	-11.8	24.4

Cumulative % total return (GBP)	1 M	YTD	1 Yr	3 Yrs	5 Yrs	Launch
Fund (Y class, 0.89% OCF)	3.1	4.0	4.0	22.7	39.3	39.5
MSCI Emerging Markets Index	-0.5	-1.6	-1.6	28.4	46.1	48.8
IA Global Emerging Markets sector average	0.0	-0.5	-0.5	31.3	44.1	46.8

RISK ANALYSIS **31/12/2021**

Annualised, weekly, from launch on 23.12.16, in GBP	Index	Sector	Fund
Alpha	0.00	0.00	0.75
Beta	1.00	1.00	0.84
Information ratio	0.00	0.00	-0.07
Maximum drawdown	-22.63	-22.63	0.80
R squared	1.00	1.00	0.80
Sharpe ratio	0.29	0.29	0.27
Tracking error	0.00	0.00	6.69
Volatility	15.02	15.02	14.13

Fund returns are for share classes with a current Ongoing Charges Figure (OCF) stated above; returns for share classes with a different OCF will vary accordingly. Source: FE fundinfo bid to bid, total return. Fund launch date: 23.12.2016.

Important information & risk factors

Issued by Guinness Global investors which is a trading name of Guinness Asset Management Limited which is authorised and regulated by the Financial Conduct Authority.

This report is primarily designed to inform you about equities and equity markets invested in by the 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. The Fund invests only in stocks of companies that are traded on Emerging Markets stock exchanges or that do at least half of their business in the region; it is therefore susceptible to the performance of that region, and can be volatile. 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.guinnessgi.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.