Guinness Emerging Markets Equity Income Fund

INVESTMENT COMMENTARY – February 2021

Launch date	**23.12.2016**
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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.

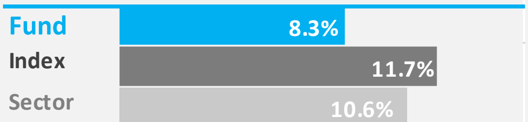
Performance 31/01/2021

Fund	Guinness Emerging Markets Equity Income (Z)
Index	MSCI Emerging Markets Index
Sector	IA Global Emerging Markets

	2020	2019	2018	2017
Fund	4.0	14.6	-9.5	26.4
Index	15.0	13.9	-9.3	25.4
Sector	13.7	16.0	- 11.8	24.4

	YTD	1 Yr	3 Yrs	Launch
Fund	1.8	10.5	7.8	39.0
Index	2.6	23.2	19.2	57.6
Sector	2.5	20.6	16.5	51.1

Annualised % total return from launch



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0.0	-0.2	-1.2
Beta	1.0	0.9	0.9
Info ratio	0.0	-0.3	-0.4
Max drwdn	-22.6	-25.1	-23.1
Tracking err	0.0	3.6	6.4
Volatility	15.1	14.4	14.6
Sharpe ratio	0.5	0.5	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.

Source: Financial Express, Z class (0.35% OCF), bid to bid, total return.

Fund & Market

- Emerging markets continued to rally in January, following the positive momentum of the past two months. In January, the MSCI Emerging Markets Net Total Return Index rose 2.7% (all performance figures in GBP unless stated otherwise).
- The fund underperformed, rising 1.8% over the month.
- Asia was the best-performing region, rising 3.9%. Next was EMEA (Europe, Middle East and Africa), which rose 0.7%. Latin America was the laggard, falling 7.1%.
- Of the largest countries in the benchmark, the best-performing in the month were China (+6.9%), Taiwan (+6.1%) and South Africa (+2.3%).
- The worst performing countries were Brazil (–8.2%), Mexico (–4.6%) and Russia (–3.1%).
- The strongest performers in the portfolio were China Medical System (+28.1%), Suofeiya Home Collection (+23.8%) and China Merchants Bank (+21.0%).
- The weakest performers were Banco Davivienda (–11.9%), Jumbo (–9.9%) and B3 (–8.7%).
- Emerging market currencies fell by 1.3% over the month.

Events in January

- China reported economic growth for 2020 of 2.3%, making it probably the only major economy in the world to have recorded growth last year.

- The inauguration of Joe Biden as the 46th President of the United States has been greeted positively by markets following chaotic scenes earlier in the month. Markets anticipate a continued adversarial but less combative approach toward China.

- The UK is setting the pace on the COVID vaccine roll-out, which is drawing envious reactions around the world. Multiple vaccines are on offer, and the number is growing. An effective rollout programme enables markets to form more concrete views on a timetable for exiting lockdowns.

- The EU, by contrast is having a much worse time with its vaccine programme which will almost certainly mean an extended period of restrictions and some social unrest. At the very least, consumer confidence in the bloc is likely to remain at depressed levels for a while yet.

- US government bond yields have increased noticeably during the month. While short-term yields (on maturities out to 3-years) remain low, there has been a noticeable steepening in maturities beyond 5 years. This suggests bond markets are beginning to factor in a path to a post-COVID normalisation and the effects of significant government spending a debt accumulation.

Review of the portfolio

Results so far this year have generally been very positive:

- Tata Consultancy Services reported revenue growth of 4.1% quarter-on-quarter, better than consensus expectations. Migration to the cloud is a trend that is continuing to benefit the company, which has won several large client deals recently. Tata's digital banking platform is proving popular with five new wins announced and six projects commencing. Margins expanded, despite wage increases, due to operating leverage and better employee productivity.

- Tech Mahindra, another IT consultancy, also reported good results after beating expectations on higher margins. Telecoms was an area of growth, and the company secured a significant 5G contract for an EU telecom company in the Network Services Management area. The order book improved 8% quarter on quarter.

- Hon Hai is benefiting from strong demand for iPhones, reporting sequential revenue growth for the quarter of 55% (up 15% year-on-year). This popularity is expected to continue through the first quarter 2021. Hon Hai also has an electric vehicle business, which is at a relatively early stage. However, several partnerships with vehicle manufacturers, notably Fiat Chrysler, have already been announced.

- TSMC has had a strong start to the year. Q4 results came in ahead of expectations. Guidance for 5-year revenue CAGR has been increased from 5-10% to 10-15%. Growth is expected to come from High Performance Computing and the automotive sector, with the 5G smartphone upgrade cycle also contributing. The company continues to invest strongly – management is budgeting to spend $25-28bn in 2021, 50% higher than 2020. The majority is to be spent on the new 3nm and 5nm process nodes (the latest chip design technology).

  The automotive sector has been as the heart of a supply shortage this year as manufacturers have struggled to secure capacity. Automakers cut orders last year, in the wake of the pandemic, but the demand recovery coming out of COVID has surprised to the upside. However, the capacity at the semiconductor foundries has already been reallocated, given the strong demand for consumer devices for at-home work and education. The supply shortages in the auto supply chain have led to production lines being halted – chip supply will come back, but it will take some time to ramp up. TSMC is likely to benefit from the short-term demand boost.

On another area expected to see strong growth in demand, 5G, TSMC expects penetration to reach 35% in 2021, up from 18% last year. Silicon content will also increase, as compared with 4G technology.

- Tisco Financial reported results for the fourth quarter. Pre-provision operating profits were up 5.5% year on year, however net profit was down 12% year on year. Higher levels of provisioning have led to an increase in the coverage ratio, which appears to be a conservative step. Costs are being controlled well, with a 14% decline for the financial year. A recovery in the auto market in Thailand this year should benefit the company. A rebound in earnings, combined with an increase in the payout ratio would also bode well for dividend payments.
- Bajaj Auto, an Indian motorcycle manufacturer, reported record EBITDA for the third quarter, 11% ahead of consensus. Higher exports and a shift towards premium models led to a 7% increase in average selling price. In exports, Latin America saw a 90% recovery in demand. A 'fragile' recovery in the domestic market means some segments are doing well (premium) while others are sluggish (three wheelers). The announcement of good results led to a 10% bump in the stock price on the day.
- LG Household and Health Care reported strong results in its cosmetic division. Growth came in the company's luxury skin care brands in China, offsetting weakness in the domestic market (Korea). Sales of LG's flagship brand, Whoo, in China were up 45% year on year. Duty Free Sales have also shown signs of a recovery, returning to positive growth after three quarters of decline stemming from reduced levels of travel.
- Suofeiya Home in China reported preliminary results that beat expectations, showing an acceleration in revenue growth in the fourth quarter. The company has been gaining good momentum recently, seeing strong demand in tier 1 and 2 cities. The stock traded up 10% after the results.

Outlook

As economies begin to open up again, attention has shifted to what 2021 might look like if consumer behaviour reverts to pre-pandemic conditions. Potentially, a huge wave of pent-up demand could be released. A large portion of the economy has seen its personal finances improve over the course of the pandemic as expenditure has been curtailed and balance sheets have repaired (though this is obviously not much comfort for the many who have lost their jobs). If this prospective surge in demand can be realised, then service businesses should benefit – particularly those that have been unavailable for much of 2020: travel, entertainment *etc*.

Recognising the potential for this strong recovery, market commentators are increasingly focussed on inflation and the consequential impact it may have on financial markets. The creep-up in long term US treasury yields that we commented on at year end has continued. Record levels of monetary and fiscal stimulus have been applied to markets, and central bankers have acknowledged that the economy may be allowed to 'run hot' for some time (as the argument goes, compensating previous periods of coolness).

Inflation impacts different industries to different degrees, but companies with high returns on capital should be in a better position that those that require large amounts of capital spending only to achieve lower returns. Franchise businesses with pricing power should be well placed – i.e. those with the ability to pass on price rises to customers faster than costs are going up.

Of course there is no guarantee that we will see meaningfully higher inflation, or even the extent of the recovery expected later this year. A continuation of current conditions, disinflation or deflation all remain possibilities. Bottom-up fundamental approaches such as ours should work well to capture the nuances that exist between different business models those identify how companies will respond in different environments.

Edmund Harriss
Mark Hammonds (portfolio managers)
Sharukh Malik (analyst)

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

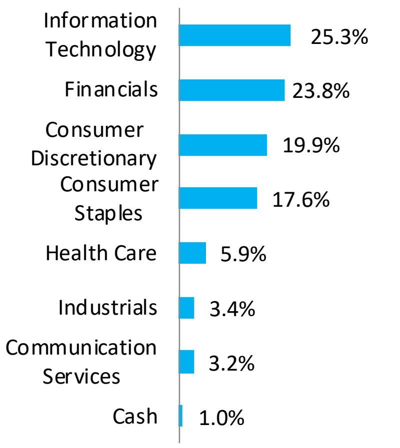
PORTFOLIO

31/01/2021

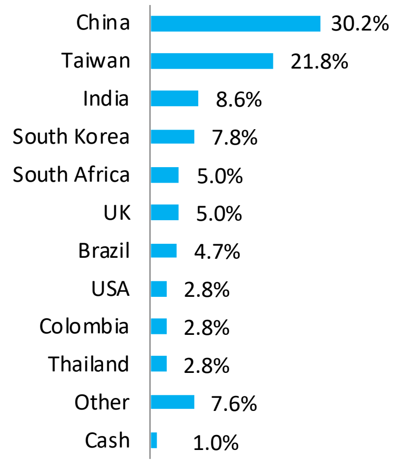
Fund top 10 holdings

China Medical System	3.5%
Hon Hai Precision Industı	3.4%
Haitian International Hol	3.4%
Novatek Microelectronics	3.3%
China Merchants Bank	3.3%
Suofeiya Home Collection	3.3%
Netease.com	3.2%
Bajaj Auto	3.0%
TATA Consultancy Service	2.9%
Zhejiang Supor	2.9%
% of Fund in top 10	32.3%
Total number of stocks	36

Sector analysis



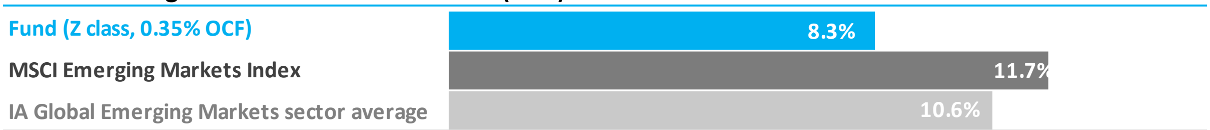
Geographic allocation



PERFORMANCE

31/01/2021

Annualised % gross total return from launch (GBP)



Discrete years % gross total return (GBP)	Jan'21	Jan'20	Jan'19	Jan'18	Jan'17
Fund (Z class, 0.35% OCF)	10.5	6.9	-8.7	-	-
MSCI Emerging Markets Index	23.2	4.0	-6.9	22.0	41.9
IA Global Emerging Markets sector average	20.6	6.3	-9.1	25.2	42.7

Cumulative % gross total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Z class, 0.35% OCF)	1.8	1.8	10.5	7.8	-	39.0
MSCI Emerging Markets Index	2.6	2.6	23.2	19.2	111.9	57.6
IA Global Emerging Markets sector average	2.5	2.5	20.6	16.5	102.8	51.1

RISK ANALYSIS

31/01/2021

Annualised, weekly, from launch on 23.12.16, in GBP	Index	Sector	Fund
Alpha	0.00	-0.24	-1.24
Beta	1.00	0.92	0.87
Information ratio	0.00	-0.28	-0.41
Maximum drawdown	-22.60	-25.12	-23.11
R squared	1.00	0.94	0.82
Sharpe ratio	0.51	0.46	0.33
Tracking error	0.00	3.62	6.44
Volatility	15.13	14.40	14.60

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.