Guinness Emerging Markets Equity Income Fund

INVESTMENT COMMENTARY – April 2021

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

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.

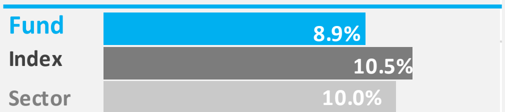
Performance 31/03/2021

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

	2020	2019	2018
Fund	4.0	14.6	- 9.5
Index	14.7	13.9	- 9.3
Sector	13.7	16.0	- 11.8

	YTD	1 Yr	3 Yrs	Launch
Fund	5.5	37.2	13.5	44.1
Index	1.3	42.3	22.7	53.3
Sector	1.8	46.8	22.3	50.1

Annualised % total return from launch



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0.0	0.2	-0.9
Beta	1.0	0.9	0.9
Info ratio	0.0	-0.1	-0.3
Max drwdn	-22.6	-25.1	-23.1
Tracking err	0.0	3.6	6.5
Volatility	15.5	14.8	14.8
Sharpe ratio	0.4	0.4	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 were flatter overall in March, ending the month lower. The MSCI Emerging Markets Net Total Return Index declined by 0.5% (all performance figures in GBP unless stated otherwise).
- The fund outperformed significantly in the period, rising 4.6%.
- Several individual stocks in the portfolio made strong gains over the month. Also contributing to the fund's performance, value stocks outperformed growth stocks. The value component of the index rose 1.6%, whereas the growth component *fell* by 2.4%.
- EMEA (Europe, Middle East and Africa) was again the best performing region, rising 6.0%. Latin America saw an improved performance over the previous month, rising 5.7%. Asia was this time the laggard, declining 2.0%.
- Of the largest countries in the benchmark, the best performing in the month were Saudi Arabia (+10.2%), Mexico (+9.5%) and South Africa (+7.2%).
- The worst performing countries were China (–5.3%), Taiwan (+0.6%) and Korea (+1.3%).
- The strongest performers in the portfolio rose for stock-specific factors. The top three were China Medical System (+27.9%), St Shine Optical (+20.5%) and Novatek Microelectronics (+19.9%).
- The weakest performers included our Peruvian bank holding, Credicorp (–13.8%) and two of our China holdings: China Lilang (–8.1%) and Zhejiang Supor (–5.1%).
- Emerging market currencies fell by 2.5% over the month.

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Review of the quarter

as at 31/03/21 in GBP	1Q21	1Y	3Y	Since Launch (23.12.2016)	Mar' 21	Mar' 20	Mar' 19	Mar' 18	Mar' 17
Guinness Emerging Markets Income Fund (Z class, GBP)	**5.5%**	37.2%	13.5%	44.1%	37.2%	-15.2%	-2.4%	16.1%	-
MSCI Emerging Markets NTR	**1.2%**	42.3%	22.8%	53.7%	42.3%	-13.5%	-0.3%	11.4%	34.7%
MSCI Emerging Markets Value NTR	**3.0%**	37.0%	9.8%	28.6%	37.1%	-21.5%	2.0%	5.3%	35.0%

Source: Bloomberg (inclusive of all annual management fees but excluding any initial charge or redemption fee), gross income reinvested. Performance would have been lower had the initial charge and/or redemption fee been included. Fund returns are for Z share class (0.35 OCF%); returns for share classes with a different OCF will vary accordingly. Past performance should not be taken as an indicator of future performance. The value of investments can fall as well as rise as a result of market and currency movements.

As the left hand column above shows, the fund performed well in the first quarter, up 5.5% in GBP terms, ahead of the market, which was up 1.2%.

The fund also outperformed the value component of the MSCI index, shown as the bottom row, which was up 3.0%.

Over time, the performance of the fund has more closely matched that of the value index, as the longer term performance numbers show.

The outperformance in the quarter came during the latter part of February and in March: as the market fell, the fund outperformed. The fund also benefited from a rotation in the market towards value stocks, (see below).

Since launch at the end of 2016, the fund has returned 44.1%, compared with the benchmark which is up 53.7%. The fund however, is meaningfully ahead of the value component of the index, which is up 28.6% over that period.

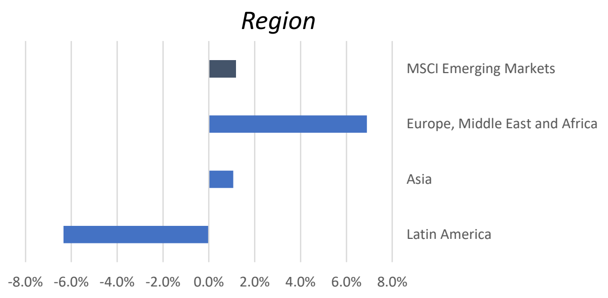
Market Review

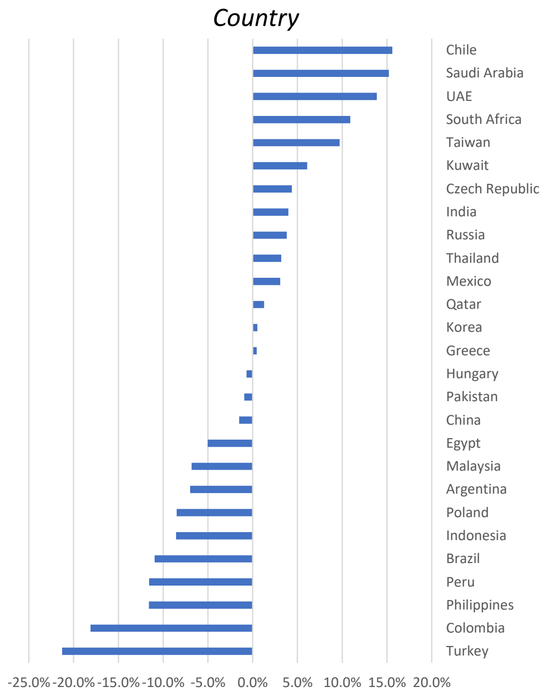
Reversing the pattern seen the fourth quarter last year (where emerging markets significantly outperformed developed markets), this time they underperformed.

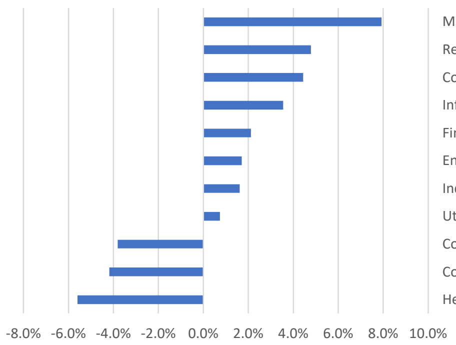
Emerging markets returned 1.2% for the quarter, whereas the MSCI World was up 3.8% and the S&P 500 Index rose 5.0%.

However, as was the case in the fourth quarter, the rotation away from growth towards value continued, with the value component of the index again outperforming the growth component. Value rose 3.0% versus a decline of –0.5% for growth.

Looking in more detail at the performance in the first quarter, the following charts show the individual regions, sectors and countries within the overall benchmark.







Source: Bloomberg. Total return for MSCI indices shown in GBP, data as at 31.03.2021.

Within emerging markets, EMEA (Europe, Middle East and Africa) was this time the strongest performer, gaining 6.9%. Asia was next up 1.1%. In a reversal of the previous quarter, Latin America was the weakest region, falling 6.3%.

In terms of individual country MSCI indices, among the larger countries, the better countries were Saudi Arabia (+15.2%), South Africa (+10.9%) and Taiwan (+9.7%). Weaker countries were Brazil (–11.0%), China (–1.5%) and South Korea (+0.5%).

In terms of sectors, strong performers were Materials (+7.9%), Real Estate (+4.8%) and Communication Services (+4.4%). Weaker sectors were Health Care (–5.6%), Consumer Discretionary (–4.2%) and Consumer Staples (–3.8%).

Portfolio performance

The top five and bottom five performing stocks over the first quarter were as follows:

Top 5 performing stocks – Q1

	Total return
China Medical System	75.2%
Novatek Microelectronics	51.9%
Hon Hai Precision	31.4%
Suofeiya Home Collection	25.3%
St Shine Optical	20.0%

Bottom 5 performing stocks – Q1

	Total return
Banco Davivienda	-24.7%
B3	-18.6%
Credicorp	-17.6%
Porto Seguro	-14.0%
Zhejiang Supor	-9.6%

Source: Bloomberg

Performance across the portfolio was reasonably broad, with 20 stocks (out of 36) outperforming the index. However, it was somewhat more concentrated at the top end, with five stocks gaining 20% or more. And at the bottom end, only four stocks fell by more than 10% and only one fell by more than 20%.

The best performer in the portfolio by some margin was China Medical System, which rose by 75.2%. The company, a pharmaceutical sales and marketing business, has continued to earn strong returns on capital, despite concerns in the sector regarding drug pricing reforms. Over the start of the year, the market reappraised the company's performance, leading to the stock re-rating.

Novatek Microelectronics was another strong performer, rising 51.9% in the quarter. Impressively, the stock was also among the stronger performers in the fourth quarter last year, rising 35.8% just in that period. High demand for working from home / online learning equipment continues to benefit the company, along with demand from the new smartphone cycle. Tightness in the supply chain is leading to rises in average selling prices.

Hon Hai Precision also did well, rising 31.4%. Results for the fourth quarter were weaker; however, the market has rewarded the company for its exposure to electric vehicles. Hon Hai has recently announced several partnerships with vehicle manufacturers, notably Fiat Chrysler.

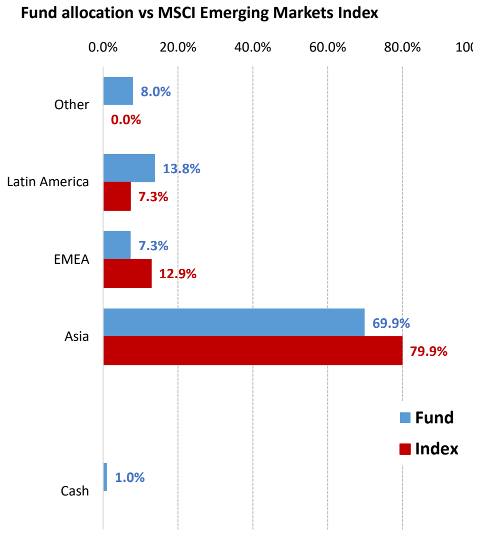
Weaker performer were all Latin American stocks: Banco Davivienda (–24.7%), B3 (–18.6%) and Credicorp (–17.6%). However, it is worth noting that these stocks were among the better performers in the fourth quarter last year. Looking at the six months since end September last year, respective performance improves to +6.6%, –5.2% and +3.1%.

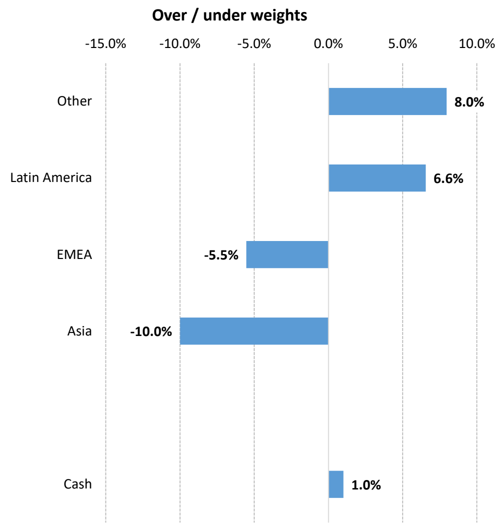
Portfolio positioning

We currently have 70% of the portfolio in Asia, 14% in Latin America, 7% in EMEA, mostly in South Africa, and 8% in 'other' (which is companies listed in the US and UK markets but deriving the majority of their business from emerging markets).

The following chart shows the regional weights relative to the benchmark:

Guinness Emerging Markets Equity Income Fund





Source: Guinness Asset Management. Data as at 31/03/2021.

Relative to the benchmark, our biggest overweight (apart from the 'other' category) is Latin America, and our largest underweight is to Asia.

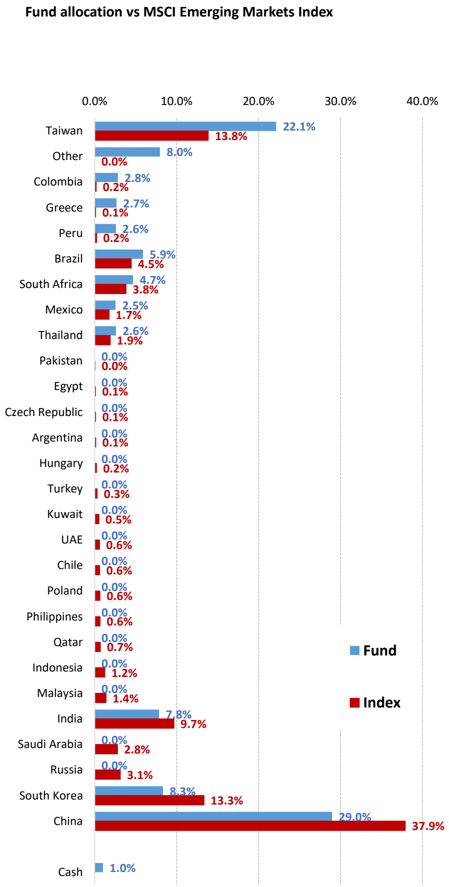
Part of the reason for the overweight in Latin America has been the decline of the region's weight in the index. By comparison, just over a year ago at the end of 2019, Latin America accounted for 11.4% of the benchmark – more than 4 percentage points higher than at the end of the quarter just gone. Much of the loss has been to the benefit of Asia over that time frame, which has increased from 73.6% to just under 80%.

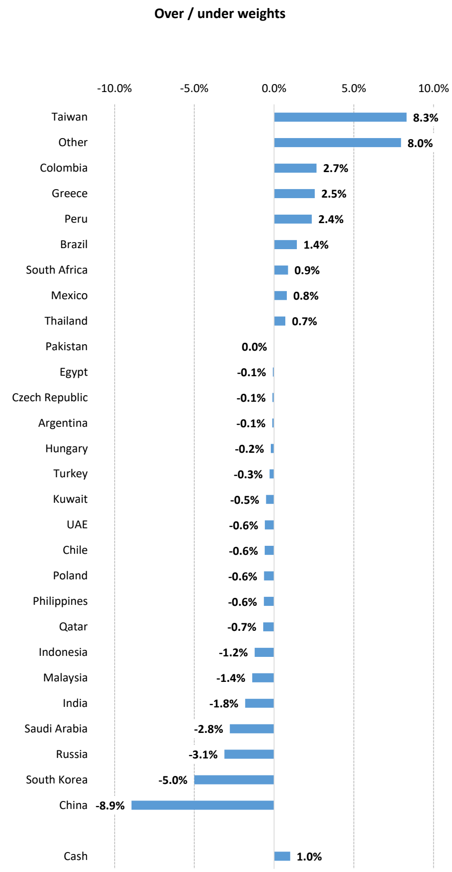
One of the companies included in the 'other' category generates a significant proportion of its revenues from Asia, and so could be reallocated, which would reduce the underweight by about 3 percentage points.

We generally do not emphasise the benchmark relative weights too heavily, although they have a meaningful impact on relative performance. Our focus is identifying quality companies wherever they may be, but also assessing where we have concentrations of risk, whether they correspond with sectors, geographies, currencies and so on, within the portfolio.

Our approach, and one of the ways we differ from peers is to put together the portfolio on a bottom-up basis, rather than by making top down judgements. Therefore the portfolio allocations should be viewed more as a result of our individual stock selection decisions.

Next we show country weights relative to the benchmark:





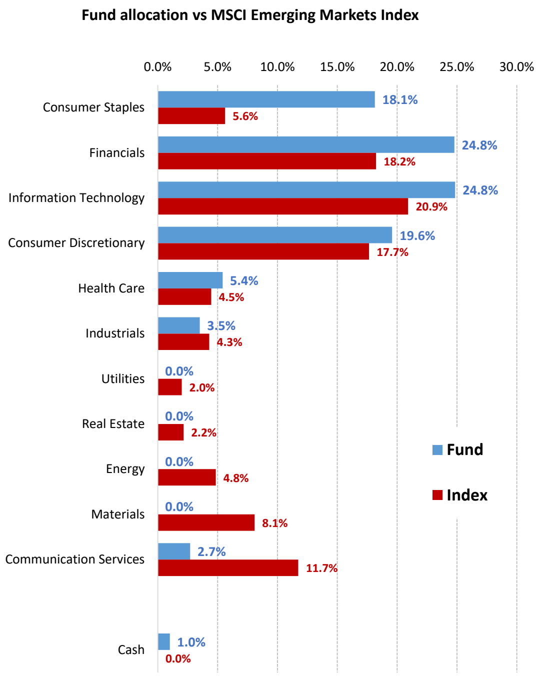
Source: Guinness Asset Management. Data as at 31/03/2021.

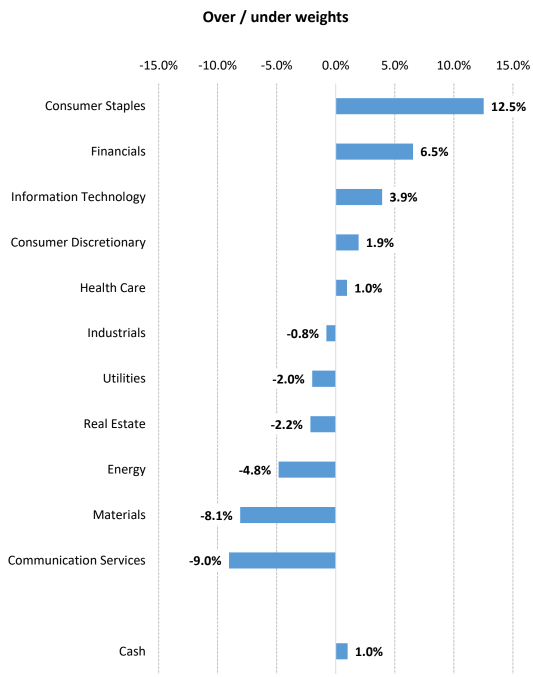
Our largest overweights are in Taiwan, 'other' (which is our off-benchmark stocks), and then Columbia, Greece, Peru – in all cases relatively small proportions of the benchmark, but where we hold one position in each, putting us 2.5 to 3% overweight.

Our largest underweights are to China, where we don't hold the internet stocks—Tencent and Alibaba, in particular—that represent a significant proportion of the index, and to South Korea where we struggle to find large numbers of quality companies available at reasonably valuations. We have an even smaller universe in the case of Russia, our next largest underweight, where we hold no positions currently.

Finally, the following table shows sector weights relative to the benchmark:

Guinness Emerging Markets Equity Income Fund





Source: Guinness Asset Management. Data as at 31/03/2021.

Our main overweights are to the consumer sectors, financial and information technology.

We are underweight communication services, and we have no holdings in the materials, energy, real estate or utilities sectors.

Dividends

Dividend policies typically fall into two categories. Progressive dividend polices, where companies seek to increase the dividend per share incrementally year after year, are relatively less common in emerging markets, though they are followed by some companies. The more widely followed approach is to set a policy based on a proportion of earnings, often referred to as a pay-out ratio.

A pay-out ratio policy means that dividends per share can fluctuate with earnings per share, meaning a decline does not necessarily equal a cut. This is more than just semantics: a dividend cut is a capital allocation decision made by management which we regard as significant. A dividend that declines in line with earnings is explainable and has lower significance to us.

Twenty-six out of the thirty-six companies we hold reported interim full year results:

- 18 companies grew their dividend.
- 1 company kept its dividend flat.
- 6 companies reported a decline in the dividend, commensurate with declines in earnings and
- 1 company cut its dividend (Tisco in Thailand, which was under regulatory direction from the central bank).

The highest dividend growth came from Haitian International, which both paid a significantly higher ordinary dividend, and a separate special dividend payment. The company which manufactures injection moulding machines in China, had a very strong rebound in results in the second half of 2020, seeing high demand for its products.

Our two Brazilian stocks, B3 and Porto Seguro also saw sharp increases in dividend payments over last year. B3, the stock exchange and financial services business, has benefited from greater market volatility and increased trading volumes. Porto Seguro, a property and casualty insurer, earned higher net income in 2020 as the loss ratio in its auto insurance business dropped sharply on lower claims.

China Medical System was the next biggest increase, after the company had strong operational performance in 2020, followed by Hanon Systems which increased its distribution to restore reductions made last year.

The six companies which reported dividend declines, did so in line with operating results. One company, Tisco cut its dividend 19%, following notice from the Central Bank of Thailand last year. Markets were therefore aware of what was coming, and in the event were positively surprised by the degree to which the 50% cut required of Thai banks was offset by a higher distribution from Tisco's non-banking financial businesses such as its asset management division.

Recent results

Recent results have continued to be generally very positive:

Broadcom reported good results for the first quarter (ended January), with the period benefitting from the later launch of the iPhone 12. Strong investment in data centres by its customers also helped. Revenues for the quarter were up 14% year on year, roughly in line with consensus and adjusted EBTIDA margin was 59%.

Broadcom has several areas of the business that are likely to benefit from greater working from home, if this becomes commonplace in future. For example, networking and storage products for data centres, home broadband equipment, and enterprise security software.

Of the $3bn in free cashflow generated, roughly half is to be returned to shareholders as a dividend. The company is retaining the rest, with management noting that it is retaining flexibility as to how to deploy it: either with M&A, share buybacks, or debt repayment.

B3 reported results for the fourth quarter. Net revenues rose 4% quarter on quarter and 39% year on year. Equity volumes remained at high levels (+67% year on year). EBITDA margin for the business was 78.7% for the quarter.

The company saw total value of public equity offerings increase from R$89bn from 42 offers in 2019 to R$118bn from 53 offers in 2020. The number of retail equity investor accounts doubled over the year. B3 also approved a share buyback program of 1.4% of shares outstanding.

Shenzhou International reported results for the second half of 2020. A small (3%) decline in net income year on year was in line with expectations. Revenues grew by 3% over the period, and operating costs reduced; however, these were offset by higher FX losses. Growth in recurring earnings excluding FX losses was 17% year on year. Sales growth was strongest in Japan (+42.7%) and China (+13.6%) also performed well. Sales declined in Europe (–17.9%), US (–14.4%) and elsewhere (–13%). The final dividend of $1.1 per share represents a 10% increase.

Bajaj Auto management announced a change in dividend policy, effectively increasing the payout ratio from 50% to 90%. Encouragingly, the policy is linked to surplus funds in the business (meaning with current cash levels, the payout ratio is set at the top of the 50-90% range). It's worth noting this could change in future, if capex were to increase from its presently low level (most likely related to development of its electric scooter range).

Outlook

Emerging markets continue to look attractive from a valuation perspective. And even with the performance in the first quarter, the fund trades at a reasonable discount to the market. At the end of March, the portfolio traded on 13.8x 2021 earnings and 12.1x 2022 earnings, both lower than the benchmark which traded at 15.5x 2021 earnings and 13.4x 2022 earnings (a discount of 11.1% and 9.7%, respectively).

2021 is set to see a strong rebound in growth across both emerging and developed markets. Notably, recent positive revisions to US growth forecasts have been significant, on hopes that the economy will open up quickly now that vaccinations are being readily distributed.

Of course the outlook is contingent on continued progress in tackling the pandemic. India is worth mentioning in this respect – the recent renewed outbreak in the country could partially stall the growth rebound anticipated for later this year.

In terms of risks, monetary policy remains critically important from a global perspective – and this has been amplified by the coronavirus-related fiscal stimulus efforts that have been deployed, including the $1.9tn stimulus programme approved in the US this year – and further stimulus is being considered there in the form of a $2tn infrastructure plan.

Attention has therefore turned to whether we are likely to see inflation come back as the economy picks up in the second half of the year. Anticipating this, a rising long term bond yield has been one of the contributors behind the recent resurgence in the performance of value stocks. We will continue to monitor expectations for a rate rise in the US and elsewhere, which have recently been brought forwards.

US-China relations are also still a risk from a political perspective, but certainly are more predictable under a new US president. China meanwhile continues to play its role as manufacturer to the world. Developed countries dependence on Asian manufacturing has been highlighted recently by the chip shortages faced by auto-makers leading to temporary suspension of production lines, in some cases.

Again we stress that our process is not led by top down allocations, rather we are looking for attractively valued quality companies across regions.

Our approach is to identify companies that have sustained returns on capital above the cost of capital persistently over time. Such companies—typically in possession of a superior competitive advantage—are generally robust to external circumstances, and have often demonstrated excellent capital allocation track records.

Businesses that have earned high returns can generally afford to pay out a dividend. Strong capital allocation skills on the part of management should also help to ensure that that dividend will grow over time as the company reinvests.

Where we can identify such companies at a discount to their intrinsic value, we think shareholders should do well over time.

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

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

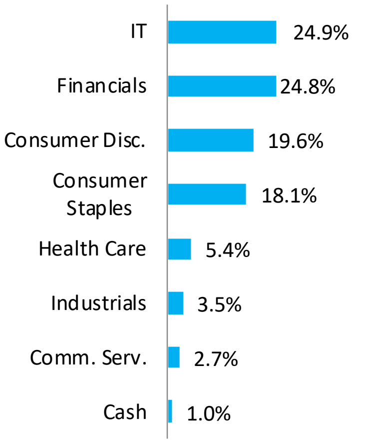
PORTFOLIO

31/03/2021

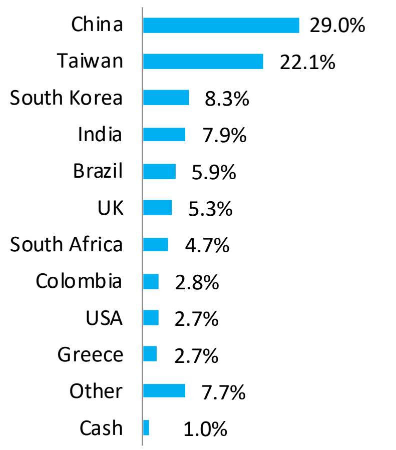
Fund top 10 holdings

Haitian International Hol	3.5%
Hon Hai Precision Industı	3.5%
Suofeiya Home Collection	3.1%
China Merchants Bank	3.1%
Porto Seguro	3.0%
Novatek Microelectronics	2.9%
Zhejiang Supor	2.9%
B3 SA - Brasil Bolsa Balca	2.9%
Unilever	2.8%
China Construction Bank	2.8%
% of Fund in top 10	30.6%
Total number of stocks	36

Sector analysis



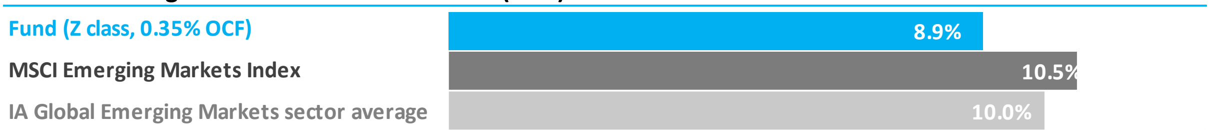
Geographic allocation



PERFORMANCE

31/03/2021

Annualised % gross total return from launch (GBP)



Discrete years % gross total return (GBP)	Mar '21	Mar '20	Mar '19	Mar '18	Mar '17
Fund (Z class, 0.35% OCF)	37.2	-15.2	-2.4	16.1	-
MSCI Emerging Markets Index	42.3	-13.5	-0.3	11.4	34.7
IA Global Emerging Markets sector average	46.8	-15.4	-1.5	8.5	35.3

Cumulative % gross total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Z class, 0.35% OCF)	4.6	5.5	37.2	13.5	-	44.1
MSCI Emerging Markets Index	-0.2	1.3	42.3	22.7	84.2	53.3
IA Global Emerging Markets sector average	-0.4	1.8	46.8	22.3	79.5	50.1

RISK ANALYSIS

31/03/2021

Annualised, weekly, from launch on 23.12.16, in GBP	Index	Sector	Fund
Alpha	0.00	0.00	-0.90
Beta	1.00	1.00	0.87
Information ratio	0.00	0.00	-0.34
Maximum drawdown	-22.63	-22.63	0.83
R squared	1.00	1.00	0.83
Sharpe ratio	0.44	0.44	0.30
Tracking error	0.00	0.00	6.45
Volatility	15.51	15.51	14.84

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.

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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

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Singapore

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Telephone calls will be recorded and monitored.