Guinness Emerging Markets Equity Income Fund

INVESTMENT COMMENTARY – May 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

30/04/2021

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	6.4	30.7	15.7	45.3
Index	3.5	35.5	23.6	56.6
Sector	3.9	37.9	23.7	53.2

Annualised % total return from launch

Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0.0	0.2	0.1
Beta	1.0	0.9	0.9
Info ratio	0.0	-0.1	-0.2
Max drwdn	-22.6	-25.1	-23.1
Tracking err	0.0	3.6	6.7
Volatility	15.3	14.5	14.7
Sharpe ratio	0.5	0.4	0.4

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 rose over the month in April. The MSCI Emerging Markets Net Total Return Index gained 2.3% (all performance figures in GBP unless stated otherwise).
- The fund underperformed over the period, rising 0.8%.
- However, the fund remains ahead year to date, up 6.4% versus the benchmark which is up 3.5%.
- Developed markets outperformed emerging markets, with the MSCI World Index up 4.4% and the S&P 500 Index up 5.1%.
- Performance by style was broadly similar, with the growth component of the index (+2.5%) slightly outperforming value (+2.1%).
- All regions generated positive returns that were roughly comparable. Latin America was the best performer, up 3.5%. Asia was next, up 2.2%, and EMEA (Europe, Middle East and Africa) was not far behind, up 2.1%.
- Of the largest countries in the benchmark, the best performing in the month were Taiwan (+7.5%), Brazil (+6.2%) and Saudi Arabia (+5.9%).
- The worst performing countries were Thailand (–1.2%), India (–1.1%) and South Africa (–0.4%).
- The strongest performer in the portfolio was China Medical System (+18.5%) (and notably up 107.6% for the year to date). Other good contributors were Porto Seguro in Brazil (+14.0%) and Novatek Microelectronics (+10.0%).

- The weakest performer was again our Peruvian bank holding, Credicorp (–12.8%), and also Suofeiya Home (–10.7%) and Hanon Systems (–7.5%).

- Emerging market currencies rose by 1.1% over the month.

Recent events

- The most dramatic event, and truly awful to watch, is the surge in COVID cases in India which has overwhelmed the country's health care system.

- In economic terms, the biggest event has been the aggressive spending proposals by President Biden; three economic plans totalling almost US$6 trillion have been proposed making a clear statement of intent and which mark a significant shift in the perceived role of government in the US from that prevailing over the past forty years.

- US foreign policy has also evolved in terms of its implementation, but not its focus. China continues to be viewed as the major strategic threat and there are big efforts underway to rebuild alliances that were shaken by the previous Administration.

- Estimates for World Economic growth have increased, with the IMF being the latest to lift estimates driven by US and China expansion. The median growth forecast for the World is 5.8% in 2021, with that for the US at 6.3% and China at 8.5%.

Review of the portfolio

More results for the portfolio holdings trickled in over the month:

Tata Consultancy Services reported results for the fourth quarter (ending in March). Revenues increased 6% year over year when expressed in constant currency. The IT services company's largest industry 'vertical' is banking, financial services & insurance, which grew by 16% in constant currency. Notably, the company has won a significant contract from State Street for its BaNCS banking platform. Overall EBIT margins at 26.8% were broadly in line with consensus.

The company has continued to benefit from demand relating to cloud migration of IT services, as well as application and data modernizing services. The order book is also very strong (up 35% quarter-on-quarter). Management guided that the company is likely to achieve strong double-digit revenue growth in 2022.

TSMC announced an increase in planned capital expenditure for 2021 from $25-28bn to $30bn. Total capex for the three years 2021-23 is due to be $100bn. The increased investment comes partly as a result of customer commitments in new process nodes (the latest chip technology), for example, Qualcomm's upcoming new Snapdragon product range.

The company also upgraded revenue guidance for 2021 to 20% (from 'midteens' in January). First quarter results saw a 1% increase in revenue quarter-on-quarter. Strong demand for high-performance computing products was offset by a weaker smartphone sector.

As an illustration of TSMC's technological superiority and the pricing power that naturally accompanies it, management have decided to keep prices firm (typically the company passes on price reductions each year to its customers, as old technologies are superseded by new). The higher prices will alleviate some of the pressure on margins caused by the high levels of investment spending referred to above.

Intel (not a holding in the Fund) recently announced that it is re-entering the foundry business, and so will be a competitor to TSMC. However, we are reasonably sanguine on the prospect – Intel has struggled in this area in the past, and currently lacks a technological edge over TSMC (indeed, it is relying on the company as a supplier to bridge a gap in its production capabilities). The broad problem for Intel to overcome is the anticipated reluctance of potential customers to contract production to a competitor – TSMC as an independent foundry is free of this type of potential conflict and thus more attractive.

Outlook

Inflation—a topic that we have flagged several times this year—continues to move up the agendas of market participants. Recent CPI data readings in the US have highlighted how problems in supply chains coupled with strong demand as pandemic restrictions are eased have started to push up prices. Significant increases in April were recorded, for example, in fuel (gasoline) costs – a data point that was prior to the recent shutdown of the colonial pipeline. Strong demand for automobiles is also feeding through into the data, with sharp increases in the price of second-hand vehicles in particular.

Price rises have continued outside the goods and services measured by the consumer prices index, with increases across multiple commodities, including lumber (fuelled by strong levels of construction) and iron ore (hitting a record high). Shipping costs for both containers and bulk goods have also moved up.

Wages have shown signs of beginning to increase, though much of this is anecdotal at this stage. Companies that have furloughed workers are struggling to rehire them and having to offer higher wages in a competitive market for workers. A strong surge in demand in service industries as a result of a boom in consumer spending could exacerbate the problem. While it is probably still too early for wage hikes to be a direct result of higher prices, they could add additional pressure further down the line.

Inflation, and the expectation of future inflation in the minds of investors, have pushed US treasury yields higher, with long-term rates moving in fitful steps. While the Fed is confident that the current inflation being recorded is 'transitory', the market is not so sure, and expectations for a rates rise have been brought forwards. This of course may create a challenge for global central bankers outside the US, if they move in lockstep with the fed.

Again, we emphasise that our approach is not based upon top-down 'macro' decisions. Instead we consider opportunities at the stock level. Key to dealing with periods of higher inflation are companies having pricing power (and thus able to pass on rising costs to their consumers quickly, without seeing a reduction in demand) and capital-efficient businesses (thus requiring less nominal investment in working capital or fixed asset replacement, simply to keep pace with existing unit volumes).

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

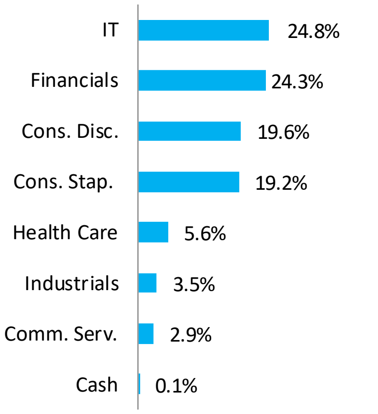
PORTFOLIO

30/04/2021

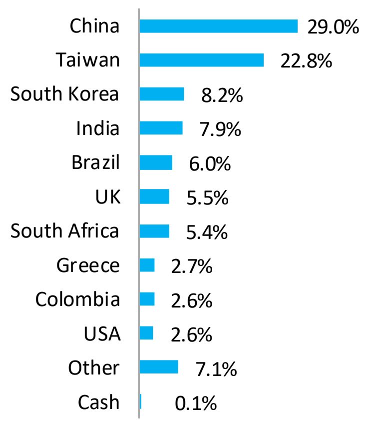
Fund top 10 holdings

Haitian International Holc	3.5%
Hon Hai Precision Industr	3.3%
Porto Seguro	3.3%
Novatek Microelectronics	3.2%
China Merchants Bank	3.2%
Zhejiang Supor	3.0%
Elite Material	3.0%
Bajaj Auto	3.0%
China Medical System	3.0%
Unilever	2.9%
% of Fund in top 10	31.3%
Total number of stocks	36

Sector analysis



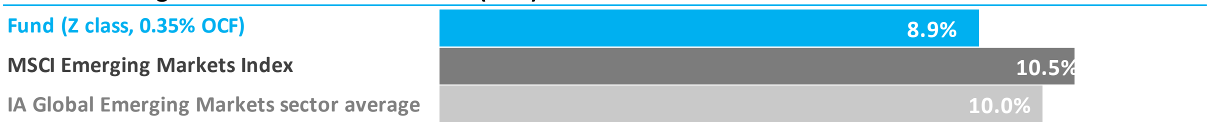
Geographic allocation



PERFORMANCE

30/04/2021

Annualised % gross total return from launch (GBP)



Discrete years % gross total return (GBP)	Apr '21	Apr '20	Apr '19	Apr '18	Apr '17
Fund (Z class, 0.35% OCF)	30.7	-13.8	2.7	-	-
MSCI Emerging Markets Index	35.5	-8.7	0.7	14.7	35.4
IA Global Emerging Markets sector average	37.9	-10.5	0.2	11.0	34.1

Cumulative % gross total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Z class, 0.35% OCF)	0.8	6.4	30.7	15.7	-	45.3
MSCI Emerging Markets Index	2.1	3.5	35.5	23.6	5.5	56.6
IA Global Emerging Markets sector average	2.1	3.9	37.9	23.7	5.2	53.2

RISK ANALYSIS

30/04/2021

Annualised, weekly, from launch on 23.12.16, in GBP	Index	Sector	Fund
Alpha	0.00	0.00	0.05
Beta	1.00	1.00	0.87
Information ratio	0.00	0.00	-0.20
Maximum drawdown	-22.63	-22.63	0.81
R squared	1.00	1.00	0.81
Sharpe ratio	0.45	0.45	0.37
Tracking error	0.00	0.00	6.66
Volatility	15.27	15.27	14.66

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.