Guinness Emerging Markets Equity Income Fund

INVESTMENT COMMENTARY – September 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.

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

Performance

31/08/2021

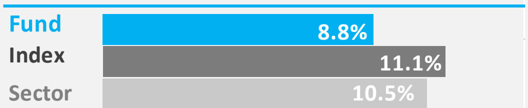
Past performance does not predict future returns

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	4.6	21.0	15.6	43.0
Index	2.2	17.8	25.3	54.5
Sector	3.4	20.0	28.3	52.4

Annualised % total return from launch



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0.0	0.5	0.3
Beta	1.0	0.9	0.9
Info ratio	0.0	0.0	-0.2
Max drwdn	-22.6	-25.1	-23.1
Tracking err	0.0	3.5	6.8
Volatility	15.3	14.4	14.4
Sharpe ratio	0.3	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 bounced back during August. The MSCI Emerging Markets Net Total Return Index rose 3.7% (all performance figures in GBP unless stated otherwise).
- The fund underperformed in the rising market, gaining 3.3%.
- The fund remains ahead for the year to date, up 4.6% versus the benchmark up 2.2%.
- Developed markets marginally underperformed emerging this month, with the MSCI World Index up 3.6%. The S&P 500 Index outperformed both, up 4.1%.
- Value again outperformed growth, though by a smaller margin than last month. Value rose 3.9% versus Growth which rose 3.6%.
- EMEA (Europe, Middle East and Africa) was the best-performing region, up 4.5% followed by Asia, up 3.7%. Latin America was weakest, up 1.9%.
- Of the largest countries in the benchmark, the best-performing in the month were Thailand (+12.7%), India (+12.1%) and Mexico (+6.7%).
- The worst-performing countries were Brazil (–1.2%), Korea (–0.5%) and China (+1.1%).
- The strongest performers in the portfolio were the two Indian IT consultancies: Tech Mahindra (+23.2%) and Tata Consultancy Services (+23.1%). Banco Davivienda (+17.9%) was another good performer.
- The weakest performer was Ping An Insurance Group (–10.5%), Novatek Microelectronics (–7.3%) and B3 (–6.7%).

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Recent Events

- At the Jackson Hole meeting, the FOMC chair was dovish in tone but kept to the path of an expected reduction in bond purchases, (tapering) later this year. At present, it is still buying at a rate of around $120 billion per month ($80 billion of Treasuries and $40 billion of Agency Mortgage-Backed Securities).

- US personal spending growth was weaker than expected in July, rising just 0.3%. This follows a downward revision in the June number to 1.1% growth. Sales of retail goods and vehicles were weaker while services rose.

- China's industrial profit growth slowed to 16.4% YoY in July compared to 20% YoY in June. One-off factors may have contributed but production bottlenecks that hit volumes are also an ongoing problem. A rolling 2-year average, that evens out short-term COVID distortions, shows by contrast, a pick-up in July to 18% compared to 15.7% in June.

- The bank of Korea raised its benchmark interest rate to by 0.25% to 0.75%. Worries about growing household debt begin to supersede economic pressure from the pandemic.

- The composite Purchasing Managers Index (PMI) eased a little in August, to 59.5 from 60.2, with Manufacturing falling back a little but Services unchanged. The UK, however, is feeling the effects of supply side shortages and the PMI has slowed sharply from 59.2 in July to 55.3. (Numbers over 50 = expansion, below 50 = contraction)

- The government of Malaysia has resigned, rather than wait for a confidence vote in September. This is part of an ongoing political crisis that began with the ousting of Mohammad Mahathir's government in February 2020.

Review of the Portfolio

Companies in the portfolio have been reporting results for the second quarter/first half:

- Novatek reported strong results for the second quarter, with earnings per share meaningfully ahead of expectations. Revenue was up 29% quarter on quarter, 83% year on year, which was ahead of guidance. Gross margin of 50.3% was significantly above the consensus forecast of 45.4%.

  In a meeting following the results announcement, management noted healthy demand across key product categories. Further increases in average selling price are expected over the second half of the year, which will likely support gross margins. Growing adoption of OLED screens (in smartphones and elsewhere) will also benefit the company. On the negative side, the company is still experiencing capacity constraints in the supply of products.

- Elite also reported very good results, with earnings coming in 10% ahead of expectations. Third quarter guidance is for revenues to grow single digits quarter on quarter. Management increased guidance for various segments of the business, with infrastructure expected to grow the fastest

(2021 revenues expected to be up 40-50% year on year), handhelds next, growing 15-25% and automotive and other expected to grow 10-20%.

- Tech Mahindra reported results for the first fiscal quarter, with revenues up 3.9% in constant currency over the previous quarter. EBIT margin was reported at a healthy 15.2% due to strong expense control. Guidance for the full year was reiterated, with management expecting double-digit revenue growth and EBIT margin of around 15%. 5G technology is gaining good traction, with the majority of new projects in the communications segment incorporating a 5G element.

- Coca Cola FEMSA's results for the second quarter were in line with consensus, with adjusted EBITDA growing 9% year on year. The business is operating at a level just slightly below the pre-pandemic level. On the positive side, the recovery in volumes has been strong in Central America, Brazil and Colombia.

- British American Tobacco's results for the first half were mixed – results overall beat expectations but growth in the new categories segment was slightly below estimates. Nevertheless, user growth was strong, helped in part by a strategy of discounting in order to drive the acquisition of users. Management reiterated that the company is on track to achieve full year guidance (net revenue growth in constant currency terms to be greater than 5%).

- KT&G reported results that missed expectations on lower margins. Exports in particular were weaker, and the pandemic continues to impact domestic (Korean) duty free sales. The continued roll-out of heat-not-burn products should help improve investor sentiment over the rest of the year.

- Porto Seguro reported strong results for the second quarter, with higher-than-expected earnings before tax. In auto insurance, good growth was achieved in written premiums, up 19% year on year. Notably, the company continues to benefit from reduced mobility owing to the pandemic – the loss ratio was at 44%, up 6 points year on year, but still below 56-57% pre-pandemic levels. (Loss ratio measurers losses incurred in claims as a percentage of premiums, hence lower is better.)

- China Merchants Bank reported second quarter profits up 33% year on year and pre-previsioning operating profit (PPOP) up 18.5%. Fee income growth of 24% benefitted from strong growth in AUM in the asset management business. Credit costs were stable with non-performing loan formation flat. Good cost control led to a 1.4% decline in the cost/income ratio.

  In light of the results, it's interesting to consider the bank's strategic focus on building its retail franchise. Part of this strategy has been developing the wealth management business and using it to attract a wealthier client segment. Total retail clients reached 165m and AUM reached RMB ~10tn at the end of the first half of the year. AUM for the private bank has grown over seven years at a 25% compound annual growth rate to reach RMB 2.8 tn. China Merchants Bank is now the largest private bank in China, ahead of ICBC. The bank's strong focus on mobile banking has produced both efficiencies on the cost side, but has also brought revenue benefits from increased cross-selling.

- Hanon reported second quarter results that were impacted by the shortage of computer chips at its US and European auto customers. Increased raw materials costs for the company's components were also a drag, impacting operating margins by around 1%. The outlook for the second half, however, is good, with a recovery expected as chip shortages decline and continued expansion of electric vehicle sales (EV revenues currently contribute around 21% of the total). New orders have also been strong, with management increasing annual new order guidance by 10%.

- Credicorp reported a mixed set of results for the second quarter. Provisions fell 35% quarter on quarter, while asset quality improved (the non-performing loan ratio declined moderately from 5.0% to 4.9%). Fee growth, up 4% quarter on quarter, also supported results. On the other hand, increased claims in the life insurance business were a negative contributor. Peru has seen increased political risk recently, but the bank's management point to the country's fiscal situation being better than regional peers, with both lower inflation and higher international reserves.

- Bajaj Auto management has provided more information on its electric vehicle strategy. A separate subsidiary has been set up with the aim of building capacity within 12 months for 0.5m electric scooters (last year's industry sales were around 150k units). This strategy limits cannibalization with the company's existing focus on the premium-segment, while ensuring that management in the electric vehicle division is able to make decisions independently.

- Haitian International reported first half results that beat market expectations. The global economic recovery supported sales to both domestic (Chinese) and international customers. A slower second half is expected; however, double-digit revenue growth and net profit growth is anticipated for the full year. No dividend was announced at the interim stage, but the full year payout ratio is expected to be between 33% and 50%.

- TSMC comments at a recent sell-side conference highlight management's confidence in long-term demand prospects, with 5G, AI (artificial intelligence), HPC (high performance computing) and automotive seen as areas of growth. Prospective revenue growth over the next 5 years equates to around a 15% compound annual growth rate. Despite high levels of investment, management are also positive about achieving a gross margin in excess of 50%. The company is investing heavily into the leading edge nodes (while still supporting the mature nodes) as management sees a 'multi-year mega trend' over the coming years, analogous to the 2011-2016 cycle that was driven by smartphone adoption.

Outlook

Last month we commented on two phenomena that have been affecting businesses: supply chain disruptions and a slowing in China. This month's round of updates from portfolio holdings makes clear that these are both having a real impact, but also that they are challenges that can be dealt with.

With supply chain challenges, we think many of our companies will adapt in the short term, as many have successfully already adapted over the course of the pandemic. For some, the supply chain hiccups are an opportunity – in the tech sector, for example, to provide crucial components that are in high demand. Generally, management are optimistic about the durability of strong future demand and are investing accordingly to increase capacity.

China's slowing in recent months has started to be reflected in economic data. Services and consumer area of the economy have naturally struggled as a consequence of the social distancing measures that have been used to counter resurgent outbreaks of the pandemic. Meanwhile China's trading partners in Asia have been tackling outbreaks of their own.

On the other hand, the manufacturing countries in North Asia (China included) have escaped some of the worst financial damage caused by the pandemic. Government balance sheets have also tended to be less impacted; the high levels of stimulus seen in the West—in part due to economies being much more dependent on services—have not translated across emerging markets. The slowdown should also be viewed in the context of the past strong performance.

As economies reopen in the West, China is likely to continue to benefit: even if the strong demand in the US for durable goods subsides, and its economy shifts back towards consumption, Europe is likely to supplant it as a source of demand for Chinese goods as more countries reopen. Well-off consumers will want to continue to spend some of the savings they have gained through the pandemic as travel and other areas of spending have been off-limits.

Continued investment and capital spending of the type being seen in Asia is likely to put the region in a favourable position to benefit from strong future demand. Spending on raw materials and commodities will strengthen non-Asian emerging market economies too. Domestic demand is likely to be stimulated by the ongoing roll-out of vaccinations in emerging markets, which have continued to increase the proportion of the population that has been vaccinated.

We expect our companies to continue to do well overall 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.

Edmund Harriss (Co-Manager)
Mark Hammonds (Co-Manager)
Sharukh Malik

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

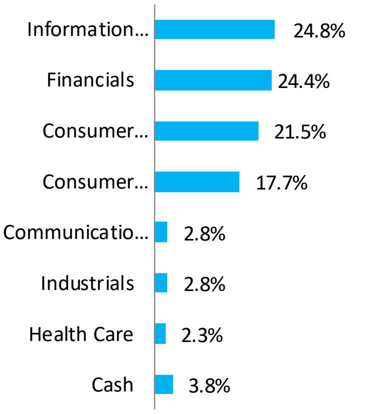
PORTFOLIO

31/08/2021

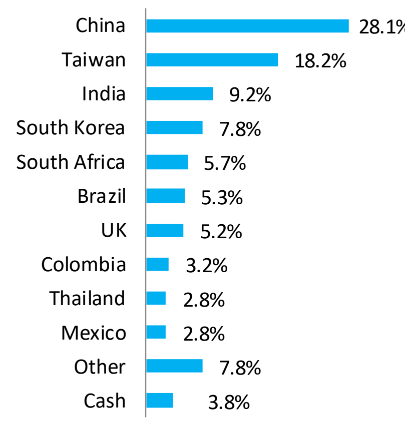
Fund top 10 holdings

Tech Mahindra	3.4%
Banco Davivienda	3.2%
TATA Consultancy Service	3.1%
Spar Group	3.1%
Elite Material	2.9%
Porto Seguro	2.9%
NetEase	2.8%
Tisco Financial Foreign	2.8%
Coca-Cola Femsa	2.8%
Haitian International Hold	2.8%
% of Fund in top 10	29.7%
Total number of stocks	36

Sector analysis



Geographic allocation



PERFORMANCE Past performance does not predict future returns

31/08/2021

Annualised % gross total return from launch (GBP)

Discrete years % gross total return (GBP)	Aug '21	Aug '20	Aug '19	Aug '18	Aug '17
Fund (Z class, 0.35% OCF)	21.0	-9.5	5.7	1.3	-
MSCI Emerging Markets Index	17.8	4.5	2.5	-1.2	27.0
IA Global Emerging Markets sector average	20.0	2.2	4.6	-4.7	25.3

Cumulative % gross total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Z class, 0.35% OCF)	3.3	4.6	21.0	15.6	-	43.0
MSCI Emerging Markets Index	3.7	2.2	17.8	25.3	6.6	54.5
IA Global Emerging Markets sector average	3.1	3.4	20.0	28.3	6.4	52.4

RISK ANALYSIS

31/08/2021

Annualised, weekly, from launch on 23.12.16, in GBP	Index	Sector	Fund
Alpha	0.00	0.00	0.32
Beta	1.00	1.00	0.85
Information ratio	0.00	0.00	-0.15
Maximum drawdown	-22.63	-22.63	0.81
R squared	1.00	1.00	0.81
Sharpe ratio	0.34	0.34	0.29
Tracking error	0.00	0.00	6.75
Volatility	15.29	15.29	14.41

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 in English from www.guinnessfunds.com or free of charge from:-

- the Manager: Link Fund Manager Solutions (Ireland) Ltd (LFMSI), 2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland; or,the Promoter and Investment Manager: Guinness Asset Management Ltd, 18 Smith Square, London SW1P 3HZ.
- LFMSI, as UCITS Man Co, has the right to terminate the arrangements made for the marketing of funds in accordance with the UCITS Directive.

Investor Rights

A summary of investor rights in English is available here:https://www.linkgroup.eu/policy-statements/irish-management-company/

Residency

In countries where the Fund is not registered for sale or in any other circumstances where its distribution is not authorised or is unlawful, the Fund should not be distributed to resident Retail Clients.

NOTE: THIS INVESTMENT IS NOT FOR SALE TO U.S. PERSONS.

Structure & regulation

The Fund is a sub-fund of Guinness Asset Management Funds PLC (the "Company"), an open-ended umbrella-type investment company, incorporated in Ireland and authorised and supervised by the Central Bank of Ireland, which operates under EU legislation. If you are in any doubt about the suitability of investing in this Fund, please consult your investment or other professional adviser.

Switzerland

This is an advertising document. The prospectus and KIID for Switzerland, the articles of association, and the annual and semi-annual reports can be obtained free of charge from the representative in Switzerland, Carnegie Fund Services S.A., 11, rue du Général-Dufour, 1204 Geneva, Switzerland, Tel. +41 22 705 11 77, www.carnegie-fund-services.ch. The paying agent is Banque Cantonale de Genève, 17 Quai de l'Ile, 1204 Geneva, Switzerland.

Singapore

The Fund is not authorised or recognised by the Monetary Authority of Singapore ("MAS") and shares are not allowed to be offered to the retail public. The Fund is registered with the MAS as a Restricted Foreign Scheme. Shares of the Fund may only be offered to institutional and accredited investors (as defined in the Securities and Futures Act (Cap.289)) ('SFA') and this material is limited to the investors in those categories

Telephone calls will be recorded and monitored.