Guinness Emerging Markets Equity Income Fund

INVESTMENT COMMENTARY – October 2021

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

30/09/2021

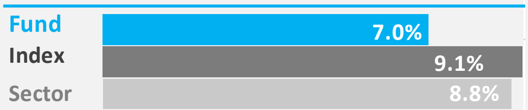
Past performance does not predict future returns

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	1.3	13.5	11.9	38.3
Index	0.1	13.3	23.8	51.4
Sector	1.5	17.0	27.1	49.6

Annualised % total return from launch



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0.0	0.5	0.0
Beta	1.0	0.9	0.8
Info ratio	0.0	-0.1	-0.2
Max drwdn	-22.6	-25.1	-23.1
Tracking err	0.0	3.5	6.8
Volatility	15.2	14.4	14.3
Sharpe ratio	0.3	0.3	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 sold off in September. The MSCI Emerging Markets Net Total Return Index declined by 2.0% (all performance figures in GBP unless stated otherwise).
- The fund underperformed in the period, falling 3.2%.
- Weaker performance from a relatively small number of stocks, particularly those listed below, contributed to the underperformance.
- Matching the pattern seen for the year as a whole, the value component of the index outperformed that for growth.
- Energy was by far the strongest sector, as the oil price rallied 11% (priced in USD). Utilities were also strong.
- EMEA (Europe, Middle East and Africa) was the best performing region, rising 2.9%, and the only region to generate positive performance. Asia declined by 2.1% and Latin America was much weaker, falling 8.4%.
- Of the largest countries in the benchmark, the best performing in the month were Russia (+8.6%), Saudi Arabia (+4.9%), and India (+2.8%).
- The worst performing countries were Brazil (–11.1%), Thailand (–5.1%) and Korea (–4.5%).
- The strongest performers in the portfolio came from various countries and sectors. The top three were Inner Mongolia Yili (+13.5%), Credicorp (+7.5%) and Jumbo (+6.2%).
- The weakest performers were Haitian International (–17.6%), Largan Precision (–17.0%) and Porto Seguro (–16.5%).

Review of the quarter

Fund Performance

as at 30/09/21 in GBP	3Q21	YTD	1Y	3Y	Since Launch (23.12.2016)	Sep 21	Sep 20	Sep 19	Sep 18	Sep 17
Guinness Emerging Markets Income Fund (Z class, GBP)	**-5.5%**	1.3%	13.5%	11.9%	38.3%	13.5%	-5.6%	4.5%	7.9%	-
MSCI Emerging Markets NTR	**-5.8%**	0.2%	13.4%	24.0%	51.9%	13.4%	5.2%	4.0%	1.9%	18.6%
MSCI Emerging Markets Value NTR	**-2.7%**	5.9%	23.2%	11.4%	32.0%	23.2%	-10.2%	0.8%	5.0%	14.8%

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 shows the fund outperformed the index in the third quarter, down 5.5% in GBP terms, compared with the market, down 5.8%.

The fund is also ahead of the benchmark over the first nine months of the year, up 1.3% versus 0.2%

The outperformance in the quarter came mainly during July, as the market sold off sharply. The fund gave up some of its relative gains towards the end of August as the market recovered.

Since launch at the end of 2016, the fund has returned 38.3%, compared with the benchmark which is up 51.9%. The fund however, is significantly ahead of the value component of the index, shown as the bottom row, which is up 32.0% over that period.

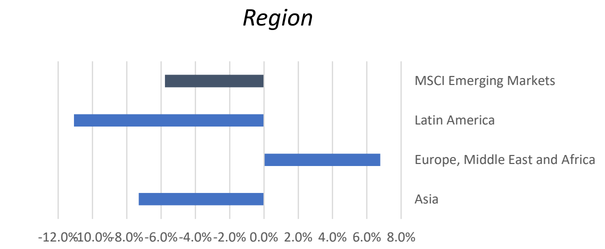
Market review

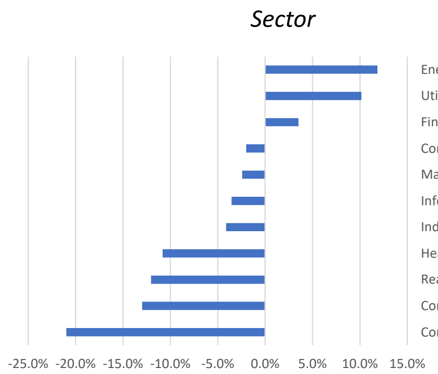
Emerging markets significantly underperformed developed markets in the quarter, after selling off sharply in July.

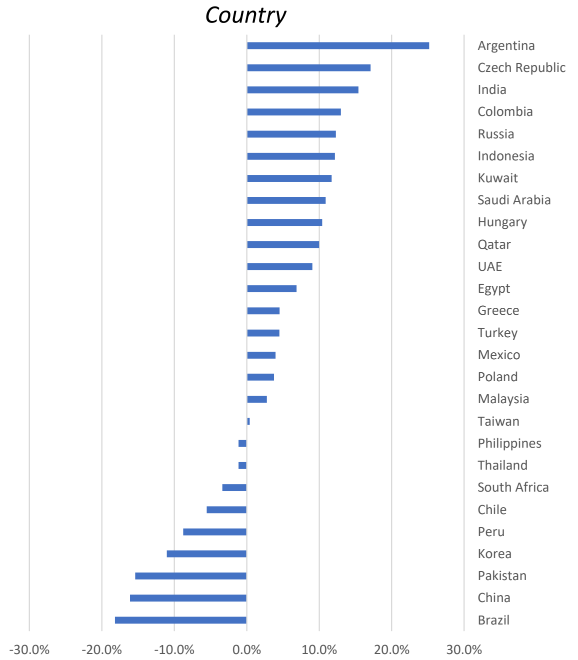
Emerging markets returned -5.8% for the quarter, whereas the MSCI World was up 2.5% and the S&P 500 Index rose 3.1%.

For the fourth successive quarter, value outperformed growth, falling by only 2.7% versus the growth component which fell 8.7%.

Looking in more detail at the performance in the third 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.

Within emerging markets, only EMEA (Europe, Middle East and Africa) generated a positive performance, rising 6.8%. Asia fell 7.3% and Latin America was weakest, falling 11.1%.

In terms of individual country MSCI indices, among the larger countries, the better countries were India (+15.4%) and two countries with large exposure to energy – Russia (+12.3%) and Saudi Arabia (+10.9%). Weaker larger countries were Brazil (-18.2% - note Brazil was the strongest performer in the second quarter but the weakest in the first quarter), China (-16.1%) and Korea (-11.0%).

In terms of sectors, the strongest performer was Energy (+11.8%) after continued strength in the oil price. Utilities (+10.1%) were also strong, followed by Financials (+3.5%). Weaker sectors were Consumer Discretionary (-21.1%), Communication Services (-13.0%) and Real Estate (-12.0%).

Portfolio performance

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

Top 5 performing stocks – Q3

	Total return
Tech Mahindra	+32.8%
Banco Davivienda	+22.5%
Tata Consultancy Services	+16.1%
Coca-Cola Femsa	+9.6%
Elite Material	+5.6%

Bottom 5 performing stocks – Q3

	Total return
Suofeiya Home	-29.4%
B3	-27.7%
China Medical System	-27.5%
Ping An Insurance	-27.0%
Largan Precision	-25.0%

Source: Bloomberg

Performance across the portfolio was fairly well split over the quarter, with 23 stocks outperforming the index. Of those, 13 stocks generated a positive performance, and three generated returns in the double digits, as shown here. However, of the stocks that fell, 7 generated losses of between 20 and 30%.

The best performer in the portfolio was Tech Mahindra, which was joined in the top five by another Indian IT services company, Tata Consultancy Services. The demand environment for IT services companies is particularly strong at the moment, 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, 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 companies are generating significant levels of cash flow and have strong pipelines of future work.

Banco Davivienda benefited from strength in the Colombian market, which was the fourth best performing EM country. Colombia is a significant oil exporter and benefited from the continuing rising price of crude this year.

Coca-Cola Femsa's recent results show a recovery in place, with the business operating almost at the pre-pandemic level. A strong recovery in volumes has taken place in Central America, Brazil and Colombia.

Elite Material, a manufacturer of environmentally-friendly printed circuit board materials has benefited from strength in the IT infrastructure market, as well as in consumer electronics. The company continues to report results ahead of expectations.

Weaker performers were mainly Chinese companies again: Suofeiya Home, China Medical System and Ping An Insurance.

Suofeiya Home has suffered continued weakness due to its exposure to the Chinese real estate sector. China Evergrande, in particular is a significant customer, and Suofeiya has made provisions against amounts owed to them. While we expect the short term hit to profitability, we anticipate the business will recover in time.

B3, the Brazilian stock exchange, was weaker along with the market weakness in that country overall.

China Medical System was in the bottom five, although this was to an extent giving back some of the gains enjoyed in the first two quarters where the stock was the best performer in each period.

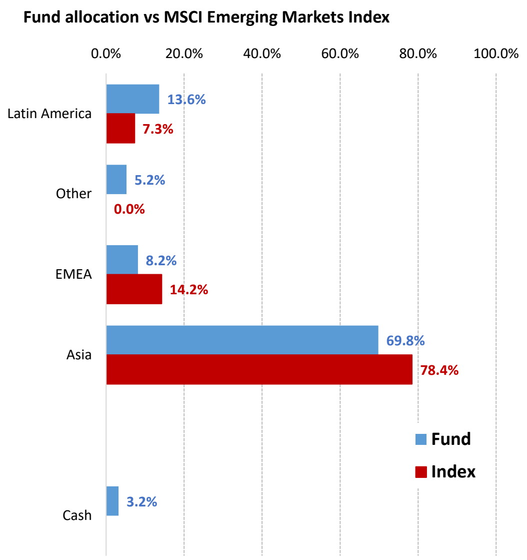
Ping An Insurance reported good results for the period, but has experienced a slowing in sales of new business in the China life insurance product segment. The company is restructuring its sales force in order to improve productivity (output per agent), although this is taking some time. The demand environment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

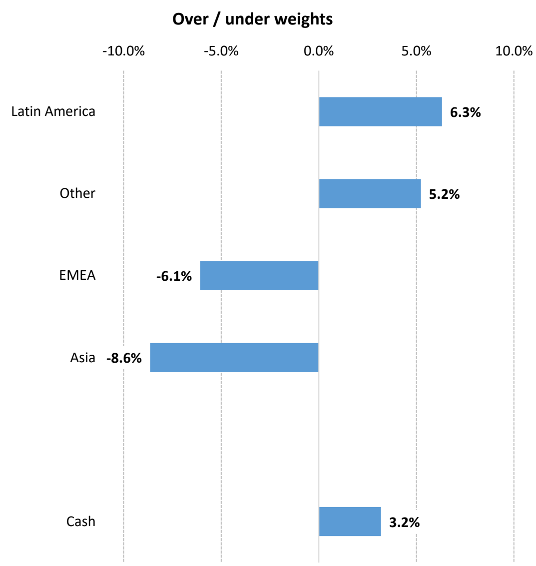
Largan, a leading manufacturer of smartphone camera lenses has faced tough competition in the mid-range specification lens market, leading to pressure on prices and margins. The company has also been affected by disruption in the camera module supply chain in Vietnam. An upgrade cycle next year with manufacturers increasing specifications should benefit the company; in particular, a lens upgrade from Apple would likely lead to stronger demand in the second half.

Portfolio positioning

We currently have 67% of the portfolio in Asia, 14% in Latin America, 8% 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:





Source: Guinness Asset Management. Data as at 30/09/2021.

Relative to the benchmark, our biggest overweight is to Latin America, and our largest underweight is to Asia.

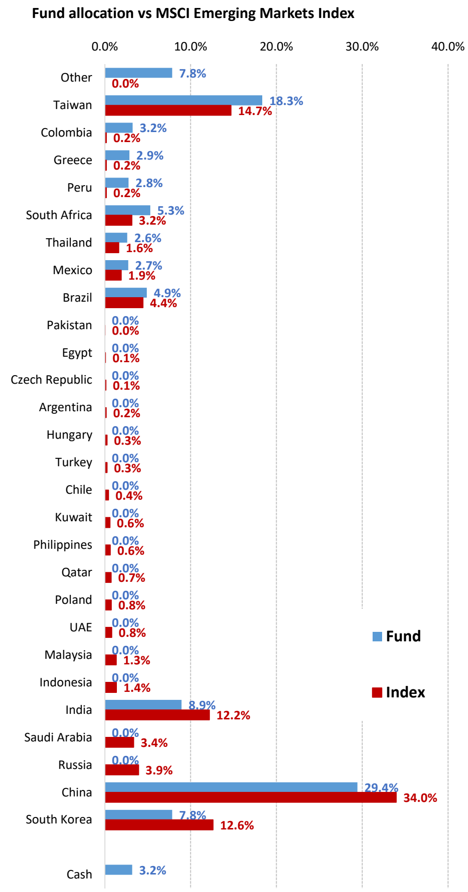
Part of the reason for the overweight in Latin America has been the decline of the region's weight in the index. By comparison, at the end of 2019, Latin America accounted for 11.4% of the benchmark – more than 4 percentage points higher than at the end of the quarter just gone. Much of the loss has been to the benefit of Asia over that time frame, which has increased from 73.6% to just over 78%.

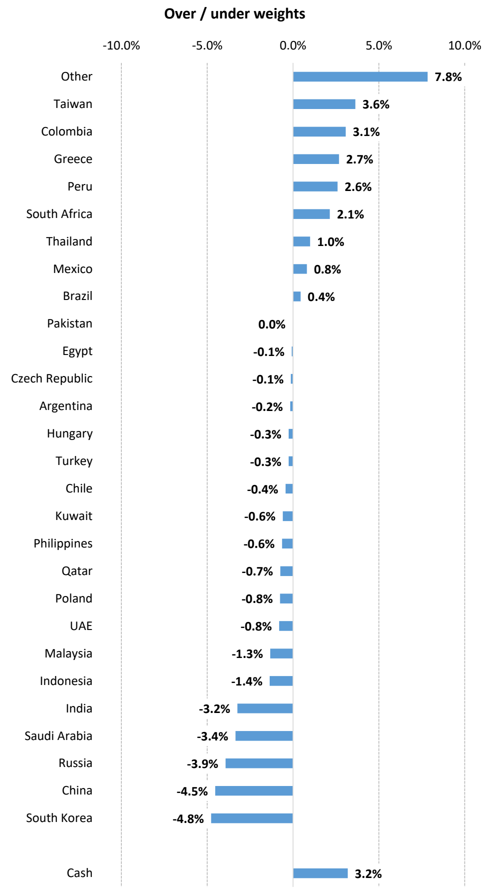
One of the companies included in the 'other' category generates a significant proportion of its revenues from Asia, and so could be reallocated, which would reduce the underweight by about 3 percentage points.

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 be viewed more as a result of our individual stock selection decisions.

Next we show country weights relative to the benchmark:



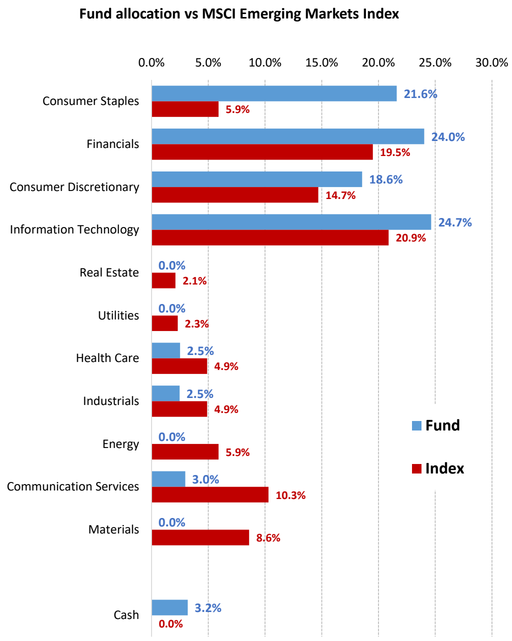


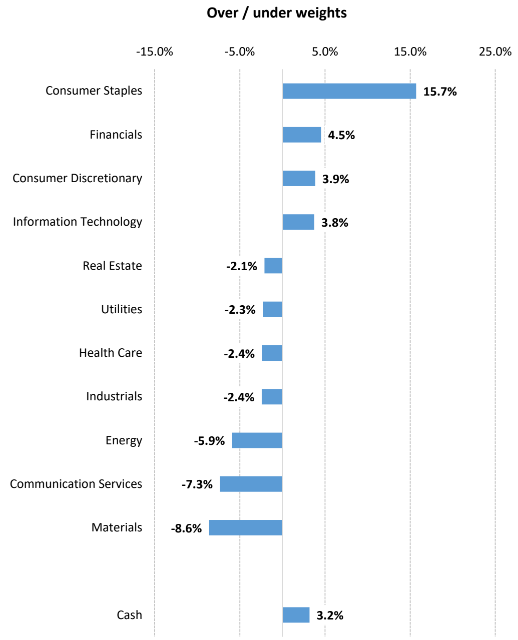
Source: Guinness Asset Management. Data as at 30/09/2021.

Our largest overweights are in 'Other' which is our off-benchmark stocks, Taiwan and then Columbia, Greece and 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 South Korea and China where we don't hold the internet stocks—Tencent and Alibaba, in particular—that represent a significant proportion of the index. We have a smaller universe in the case of Russia and Saudi Arabia, our next largest underweights, where we hold no positions currently.

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





Source: Guinness Asset Management. Data as at 30/09/2021.

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.

Recent results

Recent results have continued to be generally very positive:

- Broadcom reported good results for the third quarter (October year end), helped by strong demand for semiconductors and infrastructure software. Fourth quarter guidance was above expectations, with sales up ~8% quarter on quarter. Strong momentum is set to continue into next year, with robust demand across product categories. JP Morgan highlighted that higher free cash flow generation could lead to a 16-18% year-on-year increase in the dividend in December. And should M&A opportunities look relatively unattractive, further capital returns may be made via share buybacks.

The company held management meetings following their results, highlighting good visibility on orders into next year has led to increased confidence about achieving year-on-year growth across the majority of the business.

- Press stories indicate TSMC has been working to expand margins in both directions: by asking suppliers to cut prices, and increasing the prices it charges customers. TSMC's size and level of market share helps it to negotiate price reductions for both materials and equipment purchases. Due to tight capacity in the semiconductor market, TSMC has been requesting significant price increases from customers for both lead-edge (advanced) process-node technology, as well as in the more mature product range.

- NetEase reported results for the second quarter that were in line with expectations, and provided an update on the regulatory environment. New rules in the video game sector in China covering children are unlikely to have a significant near-term impact – per the company, under 18s represent less than 1% of revenues (although they do constitute a pipeline of eventual customers). New releases later this year (including both games in both the Harry Potter and Marvel franchises) are likely to boost sentiment towards the company. Year-on-year growth in gaming revenues could reach in excess of 20% in the fourth quarter.

- Hon Hai announced a joint venture with PTT to build an electric vehicle plant in Thailand. Ownership of the joint venture will be split 40:60 respectively. The plant will be based upon Hon Hai's MIH open technology platform. The venture is targeting annual capacity of 50,000 vehicles by 2023, rising to 150,000 in 2030.

- China Construction Bank reported results. Growth in pre-provisioning operating profit (PPOP) was 5% for the first half, with growth in net profit after tax of 11% benefiting from an 3% reduction in provisions. Net interest margin of 2.03% in the second quarter saw a slight decline (4bps) from a year ago. However, interest earning assets were up 8% resulting in net interest income growth of 6%. Non-interest income was driven by strong rebound in trading with non-fee non-interest income up 48% year on year. Non-performing loan formation rate dropped 82 bps year on year to 0.5%. Overall the results were good, but the cost benefit gained from the reduction in provisioning is unlikely to be repeated in the second half.

- A trading update was released by Spar Group covering first 48 weeks of FY21. Group sales were up 3.9% and ahead of consensus expectations. The three established regions of South Africa, Ireland and Switzerland all performed strongly; performance in Poland was disappointing due to the pandemic. Sales in the core grocery business in South Africa were up 0.5%, but the non-core businesses were much stronger. In the Liquor business, sales were up 12%, rebounding off a low base, and the Building Materials business saw growth of 28%. During the civil unrest in South Africa, 184 stores were damaged; however, 115 have since reopened, and a further 32 will be reopened before the end of 2021.

- British American Tobacco announced cigarette price increase of $0.15 per pack across 19 brands, and $0.23 per pack increase for a further 8 brands. The rise follows earlier price hikes in July and April.

- Comments from Credicorp management indicate a positive outlook. The company is targeting a 17-19% long term return on equity (ROE), with net interest margins to expand after an expected hike in interest rates. Asset quality has been better than expected, with the current levels of reserves seen as adequate.

Outlook

Over the third quarter we have seen emerging markets enter a more volatile period, with performance outcomes diverging from developed markets. (Earlier in the year, they were both rising in tandem on the prospect of a continued economic recovery). Looking at a factor analysis for the fund shows low exposure to volatility as a factor – partly we find this is due to the fund's positioning to higher quality companies with relatively stable cashflows. These companies tend to have a lower beta to the market and exhibit more consistency, particularly when compared with commodity dependent companies.

Valuations for emerging markets look more attractive on an absolute basis following the recent sell-off. Although at a premium to where they have traded historically, when compared with developed markets, emerging markets look cheap. The discount on a forward P/E ratio has moved back to an extreme level, and now looks very attractive again.

Vaccination programmes are ramping up in emerging markets, meaning that the pandemic can be more effectively controlled. Businesses are getting more and more adept at operating in a new environment, and the better businesses adapted quickly to new ways of working. Others have been able to fulfil strong demand for particular products.

However, the reopening has naturally led to problems in many areas of the supply chain. Some of these are in manufacturing processes, where limited availability of materials, components and/or labour have interrupted production schedules (for example, the chip shortage in the automotive sector, or the labour disruption in Vietnam due to pandemic restrictions). In other cases, the supply chain disruptions have been caused by transportation problems – closure of ports in China, a backlog in California unloading vessels, a backlog in the UK of onward road transportation of containers, or simply a shortage of metal shipping containers themselves. All of these factors have caused freight rates to spike. Compounding the problem is rising energy costs – we are perhaps at a relatively early stage in terms of seeing the consequences of these. The supply chain problems have been one of the contributors to higher inflation readings coming through in many areas.

Central bankers are beginning to react to higher inflation readouts, but the response has been held back by a view that inflation will be a temporary phenomenon. This may be the case, but the more widespread the sources of potential inflation and the more inflation starts to feed through into rising wage demands and labour shortages, of which we are seeing some signs, the harder it is to view it as a brief, momentary occurrence. We will of course watch this space closely.

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

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

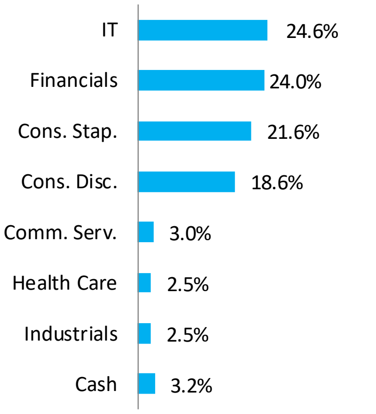
PORTFOLIO

30/09/2021

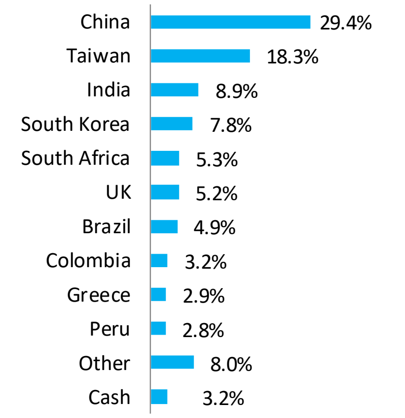
Fund top 10 holdings

Banco Davivienda	3.2%
Tech Mahindra	3.2%
TATA Consultancy Service	3.0%
NetEase	3.0%
Inner Mongolia Yili Indust	2.9%
Jumbo	2.9%
Spar Group	2.8%
Catcher Technology	2.8%
Credicorp	2.8%
Coca-Cola Femsa	2.7%
% of Fund in top 10	29.3%
Total number of stocks	36

Sector analysis



Geographic allocation



PERFORMANCE Past performance does not predict future returns

30/09/2021

Annualised % gross total return from launch (GBP)

Discrete years % gross total return (GBP)	Sep '21	Sep '20	Sep '19	Sep '18	Sep '17
Fund (Z class, 0.35% OCF)	13.5	-5.6	4.5	7.9	-
MSCI Emerging Markets Index	13.3	5.7	4.1	2.4	19.0
IA Global Emerging Markets sector average	17.0	2.0	6.5	-1.5	17.4

Cumulative % gross total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Z class, 0.35% OCF)	-3.2	1.3	13.5	11.9	-	38.3
MSCI Emerging Markets Index	-2.0	0.1	13.3	23.8	7.6	51.4
IA Global Emerging Markets sector average	-1.8	1.5	17.0	27.1	7.3	49.6

RISK ANALYSIS

30/09/2021

Annualised, weekly, from launch on 23.12.16, in GBP	Index	Sector	Fund
Alpha	0.00	0.00	-0.02
Beta	1.00	1.00	0.84
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	0.33	0.33	0.25
Tracking error	0.00	0.00	6.75
Volatility	15.22	15.22	14.32

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.