Guinness Emerging Markets Equity Income Fund

INVESTMENT COMMENTARY – November 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

31/10/2021

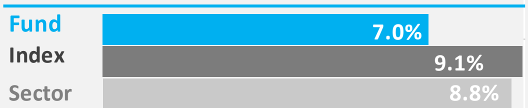
Past performance does not predict future returns

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	0.5	13.9	19.6	37.3
Index	-0.6	10.3	32.0	50.4
Sector	0.7	14.1	34.7	48.5

Annualised % total return from launch



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0.0	0.4	-0.2
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	6.7
Volatility	15.1	14.3	14.2
Sharpe ratio	0.3	0.3	0.2

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 weaker in October. The MSCI Emerging Markets Net Total Return Index fell 0.7% (all performance figures in GBP unless stated otherwise).
- The Guinness Emerging Markets Equity Income Fund (Z GBP, 0.35% OCF) returned -0.8% in line with the IA Emerging Markets Sector.
- Developed markets significantly outperformed emerging this month, with the MSCI World Index up 4.0%. The S&P 500 Index outperformed both, up 5.3%.
- Value underperformed Growth, with the former falling 1.2% and the latter rising 0.1%.
- EMEA (Europe, Middle East and Africa) was the best-performing region, up 1.0%, followed by Asia, down 0.3%. Latin America was the weakest by a significant margin, down 6.8%.
- Of the largest countries in the benchmark, the best-performing in the month were Russia (+2.7%), China (+1.6%) and Saudi Arabia (+1.4%).
- The worst-performing countries were Brazil (–10.4%), Korea (–3.8%) and India (–2.3%). In Brazil, in an effort to combat rising inflation, the central bank increased rates by 1.5 percentage points – the largest increase in almost two decades.
- The strongest performer in the portfolio was one of our Latin American financial holdings: Credicorp (+15.1%). Two of our China holdings, Yili (+13.0%) and Netease (+12.5%), were also good performers.
- The weakest performers were Tata Consultancy Services (–12.1%), B3 (–11.0%) and Jumbo (–10.7%).
- Emerging market currencies fell over the month, losing 1.0%.
- The oil price continued to rally, with Brent ending the month up 6.5%.

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Review of the portfolio

Companies in the portfolio have been reporting results, mostly for the third quarter.

TSMC reported results for the third quarter, with gross margin coming in better than expected. Management also increased its long-term guidance for gross margin to 50% or higher. Production capacity is very tight for the rest of this year and into next year, and the company is having success at passing on price increases to its customers (with further price hikes expected next year). Management is expecting inventory levels to remain high as customers seek to maintain security of available supplies. Management also confirmed a new plant is to be built in Japan, offering chips for speciality applications (likely automotive controllers and image sensors). The project is being supported by a key customer and the Japanese government, and the plant is likely to commence operations in 2024.

Tata Consultancy Services reported results for the second fiscal quarter (March year end). Revenue growth at 4% quarter-on-quarter in constant currency terms was an improvement on 2.4% in the first quarter, though still below expectations. (Year-on-year, revenues grew 15.5% in constant currency terms.) A recovery in India is evident from revenue growth of 14%. Weaker markets were the UK and Europe; revenues in the latter declined 2% in the quarter. On the positive side, the pipeline remains good, and management are confident of sustained strong demand for the year that is broad-based across service 'verticals' (industries). Cloud computing is likely to continue to offer opportunities in the medium term, both in terms of data analysis and decision-making, and also as a platform for new business models.

Tech Mahindra reported results for the second financial quarter that beat expectations. Revenues in constant currency were up 7.2% quarter-on-quarter, with 6.4% organic growth. Net new deal wins were down 8% in the quarter to US$750m; however, this is up 78% year-on-year, reflecting the strong demand environment at present. EBIT margins were flat at 15.2%. Higher staff expenses, including subcontractors, remain a headwind. A special dividend of Rs15 per share was announced.

Management reiterated guidance for double-digit organic revenue growth this year. In the 5G business, the company is focussed on higher-margin managed services deals, rather than rollout deals. Staff costs are putting some pressure on margins, with retention bonuses being offered to key employees. Travel restrictions are also causing increased subcontractor costs.

Largan reported results for the third quarter that missed expectations. Earnings were up strongly quarter-on-quarter due to seasonal factors, but gross margin dipped below 60% on weaker product mix. Competition in the mid-range specification lens market has been tough, leading to pressure on prices. 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.

Tisco reported results for the third quarter that reflect a tough operating environment. Declining automobile sales, partly due to a shortage of vehicles, has put pressure on Tisco's financing business. Positive steps taken recently to reopen Thailand to tourism should help boost the economy, leading to improved consumer demand. Credit costs fell significantly, suggesting early signs of a recovery. The company has also managed operating costs well given the conditions faced.

Hon Hai announced an agreement to buy Lordstown Motors' assembly facility in Ohio. The deal expands Hon Hai's vehicle capacity, adding a further 600k units to its current capacity of 250k units. Hon Hai will produce Lordstown Motors' full-sized pickup truck 'Endurance', targeting shipments from April next year.

China Merchants Bank reported results for the third quarter, with profits growing 21% year-on-year. Pre-provisional operating profits (PPOP) were up 16%. Net interest margin was stable, up one basis point from the previous quarter. Fee income growth was strong at 12% year-on-year, with contributions from the wealth management business, asset management, custody and bank card fees. The non-performing loan ratio declined eight basis points over the quarter.

Outlook

The shift we have seen recently in markets is the changing narrative over inflation. We wrote last month that central bankers were largely holding on to the view of inflation as being a transitory phenomenon. That seems to have shifted, as inflation readings continue to come in ‘hot’, with an acknowledgement that contributory factors have a degree of permanence about them.

The current narrative looks at inflation divided into three components: demand, supply and wages. Current high levels of inflation are attributed to supply problems (and thus seen as temporary), but have also started to feed into wage demands and pay expectations (as we have previously noted). Adding to the inflation challenge is the rising cost of energy, which pushes up the cost of living and thus can put further pressure on wages.

Rising interest rates can dampen demand (although the strength of this linkage has been debated), but are less likely to have a direct impact on supply factors. Given the challenges in predicting each of the components that feed into inflation, as well as the effect of their interaction (as we have seen), it is arguably a risky strategy to let inflation heat up in this fashion. We may see in the coming months just how far central bankers are prepared to let the experiment run.

Otherwise, our view on emerging markets remains unchanged from last month. Valuations remain at an attractive level, both on an absolute basis and relative to other regions. The continued progress made in rolling out vaccination programmes in emerging markets is likely to contribute positively to sentiment.

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*

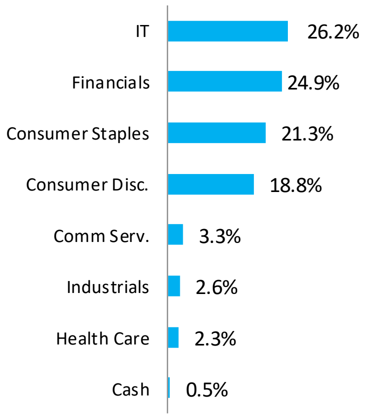
PORTFOLIO

31/10/2021

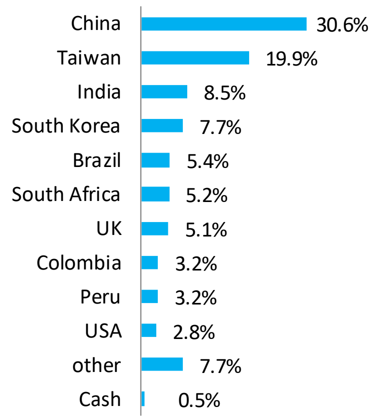
Fund top 10 holdings

Tech Mahindra	3.4%
NetEase	3.3%
Inner Mongolia Yili Indust	3.3%
Elite Material	3.3%
Banco Davivienda	3.3%
Credicorp	3.2%
Novatek Microelectronics	3.2%
Zhejiang Supor	3.0%
Taiwan Semiconductor	2.9%
Shenzhou International	2.9%
% of Fund in top 10	31.8%
Total number of stocks	36

Sector analysis



Geographic allocation



PERFORMANCE Past performance does not predict future returns

31/10/2021

Annualised % gross total return from launch (GBP)

Discrete years % gross total return (GBP)	Oct '21	Oct '20	Oct '19	Oct '18	Oct '17
Fund (Z class, 0.35% OCF)	13.9	-5.6	11.3	-3.6	-
MSCI Emerging Markets Index	10.3	8.7	10.9	-8.7	16.7
IA Global Emerging Markets sector average	14.1	4.9	12.6	-11.4	14.9

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	0.5	13.9	19.6	-	37.3
MSCI Emerging Markets Index	-0.7	-0.6	10.3	32.0	6.6	50.4
IA Global Emerging Markets sector average	-0.8	0.7	14.1	34.7	6.2	48.5

RISK ANALYSIS

31/10/2021

Annualised, weekly, from launch on 23.12.16, in GBP	Index	Sector	Fund
Alpha	0.00	0.00	-0.24
Beta	1.00	1.00	0.84
Information ratio	0.00	0.00	-0.23
Maximum drawdown	-22.63	-22.63	0.80
R squared	1.00	1.00	0.80
Sharpe ratio	0.32	0.32	0.23
Tracking error	0.00	0.00	6.72
Volatility	15.10	15.10	14.20

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.