

Guinness Emerging Markets Equity Income Fund



Investment Commentary – August 2022

This is a marketing communication. Please refer to the prospectus and KIID for the Fund before making any final investment decisions. Past performance does not predict future returns.

ABOUT THE FUND

Launch date	23.12.2016
Index	MSCI Emerging Markets
Sector	IA Global Emerging Markets
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. The Fund is actively managed and uses the MSCI Emerging Markets Index as a comparator benchmark only.

RISK

Lower Risk			Higher Risk			
1	2	3	4	5	6	7
Typically lower rewards			Typically higher rewards			

The risk and reward indicator shows where the Fund ranks in terms of its potential risk and return. The Fund has been classed as 6 because its volatility has been measured as above average to high. Historic data may not be a reliable indicator for the future. The 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.

PERFORMANCE

Past performance does not predict future returns

31/07/2022	1 Yr	3 Yrs	5 Yrs	Launch*
Fund	-0.8	2.5	17.1	34.4
Index	-8.7	3.4	13.6	36.1
Sector	-12.3	-0.6	8.3	29.7

Discrete 12m performance is shown at the end of this commentary. Source: FE fundinfo, bid to bid, total return in GBP. *Launch: 23.12.2016. Investors should note that fees and expenses are charged to the capital of the Fund. This reduces the return on your investment by an amount equivalent to the Ongoing Charges Figure (OCF). The fund performance shown has been reduced by the current OCF of 0.89% per annum. Returns for share classes with a different OCF will vary accordingly. The performance returns do not reflect any initial charge; any such charge will also reduce the return.

SUMMARY

Emerging markets fell slightly in sterling terms for the month of July. The MSCI Emerging Markets Net Total Return Index declined 0.2% (all performance figures in GBP unless stated otherwise).

The fund underperformed over the month, falling 1.9% (Class Y).

For the year to date, the fund is ahead of the benchmark. The fund is down 3.7% while the benchmark has declined 8.5%.

This month, emerging markets underperformed developed markets significantly, with the MSCI World Index advancing 8.0% and the S&P 500 Index rising 9.3%.

The best-performing region was Latin America, rising 4.3%. EMEA (Europe, Middle East and Africa) was next, up 3.6%. Asia was the worst-performing region, down 1.2%.

Among the largest countries, the best-performing were India (+9.4%), Saudi Arabia (+6.0%) and Korea (+5.9%).

The worst-performing country, by some margin, was China (-9.4%). Other weaker countries were Thailand (-1.9%) and Mexico (flat).

The strongest performers in the portfolio were Largan Precision (+20.5%), LG Household & Health Care (+14.4%) and Broadcom (+10.3%).

The weakest performers were all Chinese: Suofeiya Home (-35.7%), Zhejiang Supor (-17.2%) and China Merchants Bank (-16.2%).

China's economic outlook for the second of the year was released at the end of the month following a politburo meeting. The country's growth target was revised to keeping 'growth within a reasonable range', dropping mention of the 5.5% target announced previously.

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In a bid to tackle the problems in the property sector, the People's Bank of China is to make available Rmb 1tn in low-interest loans to commercial banks with the aim of reviving stalled real estate projects.

Tensions between China and the US rose ahead of a planned trip by House Speaker Nancy Pelosi to Taiwan.

South Africa's central bank raised interest rates by 0.75% in an effort to combat rising inflation, which reached a 13-year high of 7.4% in June.

Brent crude slumped on concern over China's demand given the slowing economy, falling 6.1% over the month.

US dollar strengthened by 1.2% in July. Emerging market currencies fell 2.4%.

REVIEW

Further updates came in during the month for portfolio companies.

Largan Precision, the Fund's best-performing stock in July, reported a sharp increase in second-quarter revenues and expects revenue growth to continue through the third quarter. Largan leads the field in smartphone camera lens technology and production know-how which supports much higher margins than its peers. The last 18 months have seen little sales growth as higher-end smartphones have focused on display and processor technology. There are now rising expectations for smartphone camera upgrades among Android phone customers including higher resolution, larger aperture, and larger sensor size.

Comments from Haitian's management indicate that demand has been impacted in the first half by a combination of the Shanghai lockdown (domestic demand) and Russia-Ukraine (international). The current order visibility is around 2-3 months, which is in the middle of the recent 2-4-month range. The company has not been discounting prices of existing products but has introduced new 'SE Series' with is priced 10% lower. The supply chain has had minimal impact from the Shanghai lockdowns, but higher steel prices are expected to cut into gross margins. This is a cyclical business, but we like the way that management are responding to the slowdown. Much will depend in the second half on the response of policy makers in China to the extent that they stimulate demand – 50% of Haitian's clients are SMEs, so they are sensitive to the macro environment.

Elite Material is a leading supplier of laminates, which are the main construction material for printed circuit boards. The stock has struggled this year as the outlook for consumer electronics, especially higher-end smartphones, has weakened. Production in Kunshan was also temporarily shut down due to Covid. This has caused earnings forecasts to be downgraded by the market. However, at the results presentation the company provided a better outlook than had been feared. New project wins and more resilient demand from their server business could see revenue growth resume in August and a higher margin. We are happy to look through the current soft patch: there is a long-term structural growth story with major upgrades coming in server platforms and switches requiring the highest quality materials and thus higher selling prices.

Tech Mahindra reported stronger revenue growth than expected but lower profit growth than expected. The company experienced higher attrition last year resulting in lower utilisation this year as new recruits have been trained. The CEO addressed this in a recent interview following the latest results, noting that they had hired 10,000 new graduates last year, that attrition rates were coming down (in contrast to the sector) and that he expects to see margin improvements over the next three quarters following the drop to 11% from 15% a year ago.

OUTLOOK

Better macroeconomic news in August has led to a buoyant market environment, with the market bouncing on hopes that inflation may finally be starting to ebb and that the Federal Reserve will not need to go as far with rate hikes.

While declining oil prices have provided relief, inflation data has only moderated slightly, with offsetting increases in categories other than energy. Real interest rates are still very negative and the Fed has reaffirmed its intention to keep raising rates, saying it has a 'long way to go'. Hence it may be wise to pause before accepting

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the notion that markets have returned to full risk-on mode.

In the wake of Russia invading Ukraine, higher natural gas prices across Europe threaten to push the region into recession towards the end of the year. Commentary about supply shortages ahead of winter do not bode well for industrial production. Pressure on food prices amid restricted exports of crops and fertilizer from Ukraine and Russia are another economic headache that shows no obvious short-term resolution.

China has already been slowing, mainly as a result of its zero-Covid policy, and also the fallout from a regulatory crackdown on the property sector. As we have discussed before, China still has the scope to provide stimulus measures in order to boost economic activity. Policy makers have struck a relatively cautious tone more recently, reducing the likelihood of huge, tidal wave-type relief measures. Nevertheless, in the face of declining activity, interest rates have been cut. A more targeted approach to supporting the economy seems more likely for the remainder of the year.

Given the uncertainties that exist in markets today, we think it is sensible to focus on the underlying fundamentals of our investee companies. We look for companies that generate attractive returns on capital in cash terms, paying a sustainable dividend, with opportunities to reinvest and grow over time. Market valuations of these companies can fluctuate over time, but their ability to make progress each year depends more on their business model and management than it does on their stock price.

Portfolio managers

Edmund Harriss

Mark Hammonds

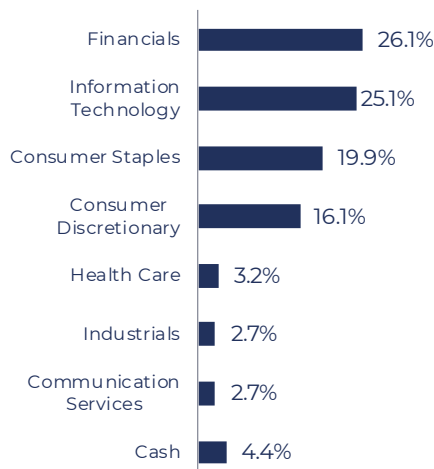
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PORTFOLIO

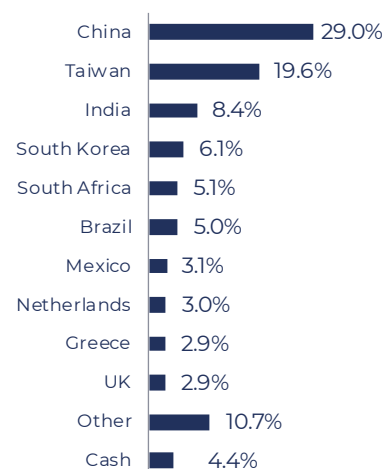
Fund top 10 holdings

Largan Precision	3.7%
LG Household & Health Car	3.4%
China Medical System	3.2%
Catcher Technology	3.1%
Coca-Cola Femsa	3.1%
Bajaj Auto	3.1%
UNILEVER NV	3.0%
Jumbo	2.9%
British American Tobacco	2.9%
Hon Hai Precision Industry	2.8%
% of Fund in top 10	31.1%
Total number of stocks	36

Sector analysis



Geographic allocation



PERFORMANCE

Past performance does not predict future returns.

Annualised % total return from launch (GBP)

31/07/2022

Fund (Y class, 0.89% OCF)	5.4%
MSCI Emerging Markets Index	5.7%
IA Global Emerging Markets sector average	4.8%

Discrete years % total return (GBP)

	Jul '22	Jul '21	Jul '20	Jul '19	Jul '18
Fund (Y class, 0.89% OCF)	-0.8	15.5	-10.6	4.4	9.6
MSCI Emerging Markets Index	-8.7	13.9	-0.6	4.8	4.9
IA Global Emerging Markets sector average	-12.3	18.0	-4.0	6.7	2.1

Cumulative % total return (GBP)

	YTD	1 Yr	3 Yrs	5 Yrs	Launch
Fund (Y class, 0.89% OCF)	-3.7	-0.8	2.5	17.1	34.4
MSCI Emerging Markets Index	-8.5	-8.7	3.4	13.6	36.1
IA Global Emerging Markets sector average	-11.7	-12.3	-0.6	8.3	29.7

RISK ANALYSIS

31/07/2022

Annualised, weekly, from launch on 23.12.16, in GBP

	Index	Sector	Fund
Alpha	0.00	-0.47	1.10
Beta	1.00	0.92	0.81
Information ratio	0.00	-0.24	0.01
Maximum drawdown	-22.63	-25.14	-23.22
R squared	1.00	0.94	0.76
Sharpe ratio	0.12	0.06	0.14
Tracking error	0.00	3.63	7.37
Volatility	14.94	14.16	13.93

Source: FE fundinfo. Bid to bid, total return. Fund launch date: 23.12.2016.

IMPORTANT INFORMATION

Issued by Guinness Global investors which is a trading name of Guinness Asset Management Limited which is authorised and regulated by the Financial Conduct Authority.

This report is primarily designed to inform you about equities and equity markets invested in by the 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. The Fund invests only in stocks of companies that are traded on Emerging Markets stock exchanges or that do at least half of their business in the region; it is therefore susceptible to the performance of that region, and can be volatile. 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.guinnessgi.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'Île, 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