

Guinness Emerging Markets Equity Income Fund



Investment Commentary – September 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

31/08/2022	1 Yr	3 Yrs	5 Yrs	Launch*
Fund	0.3	8.5	15.3	40.3
Index	-7.5	13.5	14.1	42.9
Sector	-11.0	9.1	8.8	35.6

Discrete 12m performance is shown at the end of the document. 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 recovered in August, rebounding in sterling terms. The MSCI Emerging Markets Net Total Return Index rose 5.0% (all performance figures in GBP unless stated otherwise).
- The fund underperformed slightly over the month, rising 4.4%. (Y share class.)
- For the year to date, the fund is ahead of the benchmark. The fund is up 0.5% while the benchmark has declined 4.0%.
- This month, emerging markets significantly outperformed developed markets, with the MSCI World Index up just 0.2% and the S&P 500 Index marginally ahead, rising 0.3%.
- The best-performing region was Latin America, rising 7.5%. Asia was next, up 5.1%. EMEA (Europe, Middle East and Africa) was the worst-performing region, although still up 3.9%.
- Among the largest countries, the best-performing were Brazil (+11.4%), Thailand (+10.6%) and Indonesia (+10.1%).
- The worst-performing country was Mexico (-0.6%), followed by South Africa (+0.4%) and Korea (+1.2%).
- The strongest performers in the portfolio were Porto Seguro (+23.5%), Spar Group (+18.8%) and Grape King (+15.9%).
- The weakest performers were Jumbo (-3.0%), China Medical System (-2.5%) and Broadcom (-2.4%).

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AUGUST

Jerome Powell, chairman of the Federal Reserve, struck a hawkish tone at the Jackson Hole meeting of central bankers, sparking a sell-off in US Treasuries.

The PBOC announced interest rate cuts, with a 10 basis points cut in the Medium-Term Lending Facility (MLF) and cuts of 5 basis points and 15 basis points to the 1- and 5-year Loan Prime Rate (LPR).

China's State Council also announced RMB 300bn financing in support of property and RMB 200bn for power producers.

Agreement was reached between China and the US over audit inspections of Chinese firms listed on US exchanges.

In a surprise move, Tukey's central bank cut rates by 1 percentage point to 13%.

Brent crude continued its downward path, falling 11.4% over the month.

US dollar strengthened by 2.6% in August. The euro fell below parity with the dollar.

Emerging market currencies fell 0.8%.

REVIEW

Further updates came in during the month for portfolio companies.

NetEase, a Chinese game developer, reported good results for the second quarter. Revenue was in-line with expectations, but the company beat on earnings. The PC games segment (up 41% year-on-year) was the primary driver, while mobile games were weaker (up 6% year-on-year). The cloud music business grew its top line by 29.5% year-on-year, and has seen an improvement in gross profit margin as the business scales and operating leverage kicks in. In gaming, management is focused on international growth over the second half of the year, with a lack of new game approvals in the domestic market. One recent launch in China was Diablo Immortal, which is expected to do well in the second half. The company has also been repurchasing shares – buying back \$2.3bn over the past 12 months, equivalent to around 4% of market cap.

China Merchants Bank reported second quarter results that were ahead of expectations, with pre-provision operating profit up 4% year-on-year and net profit up 15% year-on-year. On the positive side, deposits grew faster than industry levels (and the bank's loan growth), although time deposits increased more than (cheaper) demand deposits. Net income margin contracted on lower loan yields, and because of the shift in deposit mix just mentioned. Although China's economy is facing macro headwinds, management guided towards improving credit demand over the second half.

Management of Credicorp, a bank headquartered in Peru, reiterated their guidance this year for 17.5% ROE in 2022. Both net interest margin and cost of risk are tracking at the upper end of guidance, with the latter expected to moderate in the latter part of next year. Loans in the SME and consumer segments are mainly driving higher levels of delinquencies. Loan growth in the second quarter reached 14% but is expected to be 9-11% for this year overall. The company's main app, 'Yape', continues to experience growth, with the number of active users rising 0.9 million from the first quarter to reach 6 million.

Haitian International, a manufacturer of injection moulding machines, reported results that came in below expectations, with a 21% decline in revenue for the first half of 2022. Gross profit margin fell 1.3 percentage points to 30.7% on higher materials costs and lower utilization during lockdown in China. The outlook is positive, given the current environment, with management expecting to gain market share while defending pricing.

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B3, the Brazilian stock exchange and financial services company, reported results that were slightly ahead of expectations, with revenues driving the beat on higher trading volumes. Equity trading has generally been weaker than last year, with the cash equities business revenues down 14% year-on-year. EBTIDA margin was down 6 percentage points year-on-year, but still at an impressive level of 74%

OUTLOOK

The better macroeconomic news that began August quickly subsided, and we have moved into a more cautious phase as the summer ends and many are returning to the office.

The Fed has made clear its determination to get inflation under control, and the continued hawkish stance has renewed fears of a recession. Nevertheless, many economic fundamentals in the US look strong (for now), with employment data holding up and a strong dollar making imports cheaper, proving some counterbalance to high inflation for consumers.

Europe is facing an energy crisis heading into the winter, with the suspension of the Nord Stream 1 gas pipeline by Russia perhaps the most obvious illustration of the difficulties faced in energy supply. Conversations have turned to energy efficiency and energy saving measures, suspension of industrial activity, potential electricity blackouts and supply shortfalls. Imports of energy (mainly LNG) from the US will help (particularly to UK), and the winter may prove to be mild, but the circumstances point to a severe slowdown in European industry. Government assistance will help consumers, but the region is undeniably entering a tricky period.

In China, we have seen continued lockdowns due to covid, but perhaps signs that these are now becoming a familiar and even accepted feature of life. Monetary and fiscal easing have helped support the national economy and will help other emerging market countries. We still believe there is scope for policymakers to do more in this area – much will depend on the extent of a slowdown in external demand from Europe and the US. Patches of China's export economy continue to be strong, and many companies are still performing well as they navigate a challenging macro backdrop.

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	Sector analysis	Geographic allocation
Largan Precision 3.3%	Financials 27.0%	China 30.1%
Catcher Technology 3.3%	Information Technology 25.3%	Taiwan 20.7%
Bajaj Auto 3.2%	Consumer Staples 20.5%	India 8.4%
LG Household & Health Care 3.1%	Consumer Discretionary 17.1%	South Africa 5.7%
Grape King Bio 3.1%	Health Care 2.9%	South Korea 5.6%
Coca-Cola Femsa 3.1%	Industrials 2.7%	Brazil 5.5%
Spar Group 3.1%	Communication Services 2.5%	Mexico 3.1%
Suofeiya Home Collection 3.0%	Cash 2.0%	UK 2.9%
China Medical System 2.9%		Thailand 2.7%
British American Tobacco 2.9%		Colombia 2.7%
% of Fund in top 10 31.0%		Other 10.6%
Total number of stocks 36		Cash 2.0%

PERFORMANCE

Past performance does not predict future returns.

Annualised % total return from launch (GBP)	31/08/2022
Fund (Y class, 0.89% OCF)	6.1%
MSCI Emerging Markets Index	6.5%
IA Global Emerging Markets sector average	5.5%

Discrete years % total return (GBP)	Aug '22	Aug '21	Aug '20	Aug '19	Aug '18
Fund (Y class, 0.89% OCF)	0.3	20.2	-10.1	5.4	0.9
MSCI Emerging Markets Index	-7.5	17.8	4.1	2.1	-1.5
IA Global Emerging Markets sector average	-11.0	20.0	2.2	4.7	-4.7

Cumulative % total return (GBP)	YTD	1 Yr	3 Yrs	5 Yrs	Launch
Fund (Y class, 0.89% OCF)	0.5	0.3	8.5	15.3	40.3
MSCI Emerging Markets Index	-4.0	-7.5	13.5	14.1	42.9
IA Global Emerging Markets sector average	-7.6	-11.0	9.1	8.8	35.6

RISK ANALYSIS	31/08/2022		
Annualised, weekly, from launch on 23.12.16, in GBP	Index	Sector	Fund
Alpha	0.00	-0.48	1.08
Beta	1.00	0.92	0.81
Information ratio	0.00	-0.26	-0.01
Maximum drawdown	-22.63	-25.14	-23.22
R squared	1.00	0.94	0.76
Sharpe ratio	0.18	0.12	0.18
Tracking error	0.00	3.60	7.34
Volatility	14.87	14.09	13.86

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