Guinness Emerging Markets Equity Income Fund

Investment Commentary – February 2023

This is a marketing communication. Please refer to the prospectus and KID/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

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. Further details on the risk factors are included in the Fund's documentation, available on our website.

PERFORMANCE

Past performance does not predict future returns

31/01/2023	1 Yr	3 Yrs	5 Yrs	Launch*
Fund (%)	3.9	17.1	13.4	45.4
Index (%)	-4.2	11.7	7.2	41.1
Sector (%)	-4.9	8.7	5.1	36.3

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.

EVENTS IN JANUARY

Emerging markets continued to make gains into the new year. In January, the MSCI Emerging Markets Net Total Return Index rose 5.4% (all performance figures in GBP unless stated otherwise).

Despite the strength in the market, the fund outperformed the index, up 5.9% for the month.

Emerging markets outperformed developed markets, with the MSCI World Index up 4.6% and the S&P 500 Index up 3.8%.

The best performing region was Latin America, up 7.8%, closely followed by Asia, which was up 6.6%. EMEA (Europe, Middle East and Africa) was the weakest region by some distance, up only 0.4%.

Among the largest countries, the best performing were Mexico (+14.9%), Taiwan (+10.6%) and Korea (+10.3%). China was just outside the top three, up 9.7%.

The worst performing countries were India (-4.8%), Saudi Arabia (+0.3%) and Indonesia (+1.3%).

The strongest performers in the portfolio were Netease (+19.7%), TSMC (+16.8%) and Spar Group (+16.2%).

The weakest performers were Banco Davivienda (-5.9%), British American Tobacco (-5.7%) and Credicorp (-2.8%).

China reopened its borders to travellers, removing Covid restrictions.

Economic data showed China's economy to have grown by 3% in 2022, the second lowest reading since the 1970s. The reopening of the economy is expected to lead growth to rebound in 2023 to above 5%.

Lula da Silva was inaugurated as president of Brazil. A week later, protestors stormed the congress in support of da Silva's predecessor, Jair Bolsonaro.

Political unrest continued in Peru, following the ousting and imprisonment of left-wing president Pedro Castillo.

Brent crude declined 1.7% over the month.

Emerging market currencies gained 1.3%.

MARKET REVIEW

Emerging markets had a strong start to 2023, outperforming developed markets, and continuing a run of good performance at the end of last year. Since the low (in USD terms) reached on 24 October 2022 to 31 January 2023, the market has gained 13.0%. By contrast, developed markets have been much weaker, with the MSCI World up only 3.0%, and the S&P 500 *down* 1.0% over this period.

(Note: Developed markets began their October rally earlier; taken from 12 October 2022 (its low) to 31 January 2023, the MSCI World Index rally improves to 6.2%, though still underperforming emerging markets.)

Clearly, the reopening in China has been hugely significant, as we wrote about in our annual review. Unsurprisingly, Asia has been the best performing region, up 17.5%, far ahead of both Latin America, down 1.0%, and EMEA, down 4.4%. Among the largest countries, China has been the best, up 36.4%, followed by Taiwan (+20.1%) and Korea (+16.6%).

Since the low, value and growth have both performed well, although growth has been in the ascendancy, rising 15.3%, compared to value, up 9.5%. Much of this represents a recovery from the underperformance of growth for many months prior. If we take the beginning of 2022 as the start point, to the end of January this year, growth trails value, down 9.4% versus value down 0.9%.

Over the period since the October low, the fund has benefited from its China exposure, with the three best performers being Ping An Insurance Group (+69.8%), China Merchants Bank (+67.9%) and Shenzhou International (+57.2%).

Over one year to 31st January, the fund has now outperformed significantly, up 3.9% in GBP, while the Index is down -4.2%: an outperformance of 8.1%.

PORTFOLIO UPDATE

Updates came in during the month for several of the portfolio holdings.

Tech Mahindra reported results for its third quarter. Sales were 5% higher on a sequential basis, but increased operating margin, higher utilisation and lower staff attrition lifted net profit by 11% compared to the previous quarter. Results are still weaker than they were a year ago, but the company appears to be addressing successfully the challenges it faced over the previous twelve months. The company reported a client environment that includes longer decision making times and cuts to 'discretionary' spending.

Tata Consultancy Services (TCS) reported results for its third quarter (March year-end). Revenue growth was strong at 13.5% year-on-year in constant currency terms. While current revenues are expected to be relatively strong for the year, some softness is apparent in intake of new orders. Nevertheless, the book-to-bill ratio remains above 1 at 1.1 times. Despite the headlines over job losses in tech companies, the US market remains relatively strong for TCS – it is in the European market where the outlook is weakest.

Bajaj Auto also reported results for its third quarter. Earnings significantly beat expectations, driven by higher gross margins. Despite some weakness in volumes, better sales of premium bikes and higher revenue from spares increased the overall margin mix. The outlook for the export market, which had previously been weak, has improved with signs that inventory levels have corrected. The company's launch of its two-wheeler electric vehicles is expected over upcoming quarters.

Tisco Financial Group reported fourth quarter results. Full-year net profit rose 6% year-on-year. Tisco appears, once again, to have used a strong period of profitability to build up loan loss reserves in line with its prudent approach. Loan growth was 8% year-on-year, net interest margin was higher than expected at 5.09%, and the non-performing loan ratio was lower at 2.09% of gross loans.

OUTLOOK

Emerging markets have paused in February after a strong run into the beginning of the year. Investors are monitoring inflation data in order to second guess the actions of the US Federal Reserve in relation to interest rates. For some time, Fed officials have been communicating that interest rates are likely to have to go higher than expected by the market, with the overriding aim of bringing inflation back under control. The key component of inflation that officials are monitoring, services ex. housing, is indicating that inflation has proven to be stickier than many were expecting. For those expecting interest rates to come down (which admittedly seems unlikely at this point), a key question is surely whether this will be as a result of lower inflation, or whether the Fed's resolve is in doubt. It is surely harder to argue for the latter, given the emphasis made by Fed officials in their public communications.

China's reopening has brought strong performance in Chinese equities since the October market low. We have also seen tentative signs that animal spirits have returned in the market, leading us to question whether there is room to run, or whether markets are a little overheated, at least in the short term. Nevertheless, most companies are yet to see the benefit of even a full quarter of trading without the Covid restrictions in place. Over the upcoming reporting period we will get a sense of current trading, but it may not be until the spring that we see the full effect on companies' earnings reports. Given the degree of potentially pent-up demand, we could see a useful fillip for economic activity as the year progresses.

Of course, we emphasise that our focus is bottom-up, rather than top-down. We assess cyclical and structural trends for their impact on our portfolio holdings. By requiring companies to have track records of returns sustained above the cost of capital, we aim to invest in companies that can weather different economic climates. We will see how well they have weathered the current storm as we emerge the other side. Hopefully it will be in a stronger position, particularly if their competitors have suffered to a greater extent.

Clearly the reopening in China is hugely significant, both for the economy and for market sentiment. For the former, we are likely to see a strong recovery in the sectors that have been hardest hit by the Covid restrictions, for example in travel and hospitality. From a market sentiment perspective, we have already seen a strong rally in China over the past months as many investors reappraise the country.

Notably, China's reopening, with its associate very stimulative effect, comes just at the time that the global economy is slowing. Many investors' attention is occupied by the threat of a recession in the US, given the backdrop of higher interest rates than we have had for many years. As declines have started to come through in reported inflation data, some hope that the Fed will be forced to change course and to move on from the current cycle of hiking interest rates in order to address the slowdown in the economy. The Fed, however, has been clear in its determination to head off inflation (and to be reasonably sure that the problem has been dealt with), so we could witness a scenario of higher rates for longer in order to ensure the flames of inflated are fully damped.

The other challenge to watch out for is the potential for Covid in China to impact the supply of goods, as we have seen on previous occasions where the economy has opened up. China of course does not have the same problem with inflation as in Western economies, and there is more room on the part of policymakers to provide economic stimulus if required. The reopening is therefore likely to be bumpy, but overall with a very beneficial effect.

Emerging markets still trade on very low valuations, and we expect valuation re-rating to contribute to returns, but over the long term, it is the fundamental performance of the business that is likely to drive results for shareholders.

As of 31st December 2022, the portfolio trades on a trailing yield of 4.3% (this includes the fund's most recent distribution). Historic yield reflects the distributions declared over the past 12 months expressed as a percentage of the mid-market price, as at the date above. It does not include any preliminary charges. Investors may be subject to tax on the distribution.

The implied earnings growth for the portfolio in 2023 is 7.6%, compared with that for the market of a 1.6% contraction. Looking at the compound growth rates over the next two years, we see a similar picture, with the fund at 9% versus the market at 7%. In general, the market tends to exhibit more volatility in earnings (in both directions), driven by the more cyclical nature of some of its constituent companies. We typically seek companies with more consistent earnings profiles – often those companies that tend to benefit more from structural than cyclical tailwinds.

From a valuation perspective, the portfolio trades on 10.3x 2023 earnings, which is a 12% discount to the benchmark which trades on 11.7x 2023 earnings.

We look for companies that have earned attractive returns on capital, where we think those returns are likely to persist in the future. By generating cash on a reliable basis, a sustainable dividend can be paid and reinvestment opportunities can be funded. Over time, this leads to growth which potentially also strengthens the company and its business model. This gives us confidence that we will achieve the earnings growth and dividend growth that is essential to the investment case.

Portfolio managers

Edmund Harriss

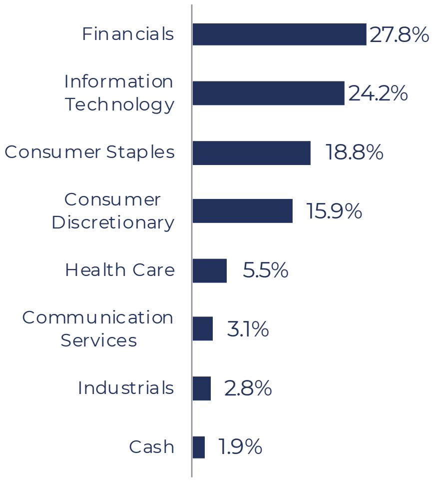
Mark Hammonds

PORTFOLIO

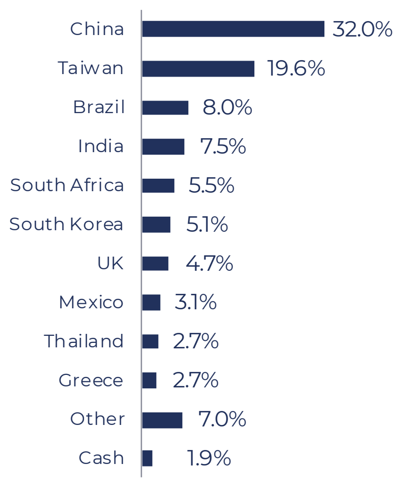
Fund top 10 holdings

Ping An Insurance	3.7%
China Merchants Bank	3.3%
Novatek Microelectronics	3.2%
Coca-Cola Femsa	3.1%
NetEase	3.1%
Grape King Bio	3.0%
Largan Precision	3.0%
Spar Group	2.9%
Shenzhou International	2.8%
Taiwan Semiconductor	2.8%
% of Fund in top 10	30.9%
Total number of stocks	36

Sector analysis



Geographic allocation



PERFORMANCE

Past performance does not predict future returns.

Annualised % total return from launch (GBP) **31/01/2023**

Discrete 12m % total return (GBP)	Jan '23	Jan '22	Jan '21	Jan '20	Jan '19	Jan '18
Fund (Y class)	3.9	2.6	9.8	6.5	-9.0	27.3
MSCI Emerging Markets Index	-4.2	-5.1	22.8	3.6	-7.3	24.8
IA Global Emerging Markets sector average	-4.9	-5.2	20.6	6.3	-9.1	22.0

Cumulative % total return (GBP)	YTD	1 Yr	3 Yrs	5 Yrs	Launch
Fund (Y class)	5.9	3.9	17.1	13.4	45.4
MSCI Emerging Markets Index	5.4	-4.2	11.7	7.2	41.1
IA Global Emerging Markets sector average	5.8	-4.9	8.7	5.1	36.3

RISK ANALYSIS **31/01/2023**

Annualised, weekly, from launch on 23.12.16, in GBP	Index	Sector	Fund
Alpha	0.00	-0.14	1.59
Beta	1.00	0.92	0.82
Information ratio	0.00	-0.16	0.07
Maximum drawdown	-26.05	-26.33	-23.22
R squared	1.00	0.95	0.78
Sharpe ratio	0.15	0.11	0.20
Tracking error	0.00	3.63	7.21
Volatility	15.40	14.49	14.34

Source: FE fundinfo. Bid to bid, total return. Fund launch date: 23.12.2016. A glossary of financial terms can be found here.

IMPORTANT INFORMATION

Issued by Guinness Global investors, 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 Information Document (KID) / 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 KID 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