

# Guinness Emerging Markets Equity Income

Investment Commentary – February 2024



## RISK

This is a marketing communication. Please refer to the prospectuses, KIDs and KIIDs for the Fund, which contain detailed information on its characteristics and objectives, before making any final investment decisions.

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.

Past performance does not predict future returns.

## ABOUT THE STRATEGY

|                     |   |
|---------------------|---|
| <b>Launch</b>       | 23.12.2016                                      |
| <b>Index</b>        | MSCI Emerging Markets                           |
| <b>Sector</b>       | IA Global Emerging Markets                      |
| <b>Managers</b>     | Edmund Harriss<br>Mark Hammonds CFA             |
| <b>EU Domiciled</b> | Guinness Emerging Markets<br>Equity Income Fund |

## OBJECTIVE

The Guinness Emerging Markets Equity Income Fund is designed to provide investors with exposure to high-quality dividend-paying companies in Emerging Markets worldwide. 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.

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## COMMENTARY

Emerging markets weakened in January. The MSCI Emerging Markets Net Total Return Index fell 4.5% (all performance figures in GBP unless stated otherwise).

The fund outperformed by 2.4%, falling 2.1%.

Emerging markets underperformed developed markets in the month. The MSCI World Index rose 1.6% in January and the S&P 500 Index gained 2.0%.

All regions declined, with Asia the worst performing, down 4.9%. Latin America was not much better, down 4.5%. EMEA (Europe, Middle East and Africa) was the best performer, down 0.6%.

Growth sharply underperformed value, declining 5.3% versus -3.3% for value.

Among the largest countries, the best performing were India (+2.8%), Saudi Arabia (-0.4%) and Taiwan (-0.8%).

The worst performing countries were China (-10.3%), Korea (-9.7%) and Thailand (-7.6%).

Of stocks held over the full period, the strongest performers in the portfolio were Elite Material (+18.3%) and Bajaj Auto (+13.5%).

The weakest performers were China Medical System (-18.9%), Hanon Systems (-17.3%) and Largan Precision (-14.9%).

### EVENTS DURING THE MONTH

- China's GDP grew by 5.2% last year, above the government's 5% target.
- Official data showed China to be the largest exporter of cars worldwide in 2023, overtaking Japan.
- Conflict in the middle east broadened out, with further attacks by Houthi rebels on commercial ships passing through the Red Sea.
- In Taiwan, the incumbent William Lai Ching-te of the Democratic Progressive Party won the presidential election.
- US stock markets rallied, with the S&P 500 touching a record high during the month.
- The Federal Reserve left US interest rates unchanged.
- Crude oil prices rose, with Brent crude up 6.6% over the month.

### PORTFOLIO CHANGES

We sold one position from the portfolio during the month, and added one new position.

We sold Banco Davivienda, taking advantage of a recent modest bounce in the stock price. The stock had a difficult 2023 due to weaker macroeconomic activity in Colombia. The bank saw an increase in cost of risk and a rise in funding costs last year, which exerted a drag on net interest margins. The outcome was reflected in sharp earnings downgrades over the latter part of 2023. The company's dividend had recovered after the covid period, but growth had stalled.

We added Kweichow Moutai, the market leading producer of Baijiu alcohol in China. The company's flagship product carries a high degree of prestige and is often drunk at banquets, over business meetings and other important occasions. A recent large price hike by the company in the wholesale distribution channel, after a period of keeping prices constant, indicated the pricing power present in the luxury brand. The company has progressively taken steps to increase direct-to-consumer sales, which offer higher margins. The business is very cash generative, and the stock pays an attractive dividend.

### PORTFOLIO UPDATE

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

- **Bajaj Auto** announced a stock buyback to return surplus cash to investors. Recent trading has been strong, and the company's planned capex spend is relatively low as capacity is ahead of the current run-rate of demand.
- **Novatek** reported four quarter revenues ahead of expectations. The company has a strong position in OLED driver integrated circuits, so is less threatened by potential Chinese competition in this area.
- **Largan** reported strong revenue growth for the fourth quarter (up 24% year-on-year) after a strong December. The first quarter of 2024 is expected to be slow, before recovering from the second quarter. The company's periscope lenses change the orientation of the lens within a smartphone, overcoming the natural limitations of the depth dimension (because smartphones are invariably thin) to allow greater zoom levels. Wider adoption of these lenses among smartphones is likely to be lucrative for Largan.
- **Hon Hai** reported fourth quarter revenues marginally ahead of expectations, down 5% year-on-year. The company is expanding its production facilities in India, although it is worth noting it has been operating in the country for the past 17 years (since 2006).
- **TSMC** reported fourth quarter revenues ahead of consensus expectations, with the first quarter of 2024 expected to mark a return to year-on-year growth. Following a period of inventory destocking, demand is expected to recover, with outsourced production from competitor Intel making increasingly meaningful contributions to revenues.

- **Tata Consultancy Services** reported third quarter (it has a March year-end) results that beat consensus expectations on the top and bottom lines. The company also announced a special dividend to be paid alongside the regular dividend. The outlook remains tough, although the company noted improvement in some areas, for example in Europe.

### OUTLOOK

After a strong period of performance for global markets at the end of last year, the start of this year by contrast has been much more muted. It has become clear that investors were getting ahead of themselves on the timetable for rate-cuts in the US in 2024, as the chair of the US Federal Reserve, Jerome Powell, poured cold water on the idea of a rate cut in March.

The US economy and jobs market in particular have still been very strong, and despite the drops in the rate of inflation, still appear to be running hot. The case for rate cuts being needed at this stage is difficult to make. There are some areas of the economy that are more stressed and would benefit from rate cuts – commercial property being the main example. Turbulence in the financial sector could be another trigger for lowering interest rates.

In emerging markets, the picture is somewhat different. Latin American economies moved more quickly to counteract rising inflation and thus arguably were able to 'get ahead' of the monetary policy cycle. The benefits of doing so are clear, as Brazil is now in the easing phase of the cycle and has cut interest rates. Other countries we believe are not far behind.

China has had a tricky start to 2024, with widespread weakness seen in its stock indices. Investors appear to be turning against anything Chinese, irrespective of the quality of the underlying enterprise. However, when we have seen such indiscriminate selling in the past, it has inevitably opened up pockets of opportunity. Companies with established track records of generating stable profits and good returns on capital become relatively more attractive when they are sold off alongside more cyclical companies (where a business downturn represents more of a threat).

Our investment process asks two overarching questions:

- Are the past returns on capital for the company likely to persist into the future?
- Is the market pricing the stock as though they won't?

In the case of select, high-quality Chinese exposure, we feel that currently the answer to each question is yes.

The emphasis we place on the underlying quality of a business, earning high returns on capital and generating cash, provides the underpinning for rewarding shareholders with dividends while seeking to compound its earnings over the long term. It is a combination, embedded in an equally weighted portfolio, that we believe works particularly well in an emerging market context, and provides investors with access to a disciplined strategy with which they can navigate an uncertain environment.

#### Portfolio Managers

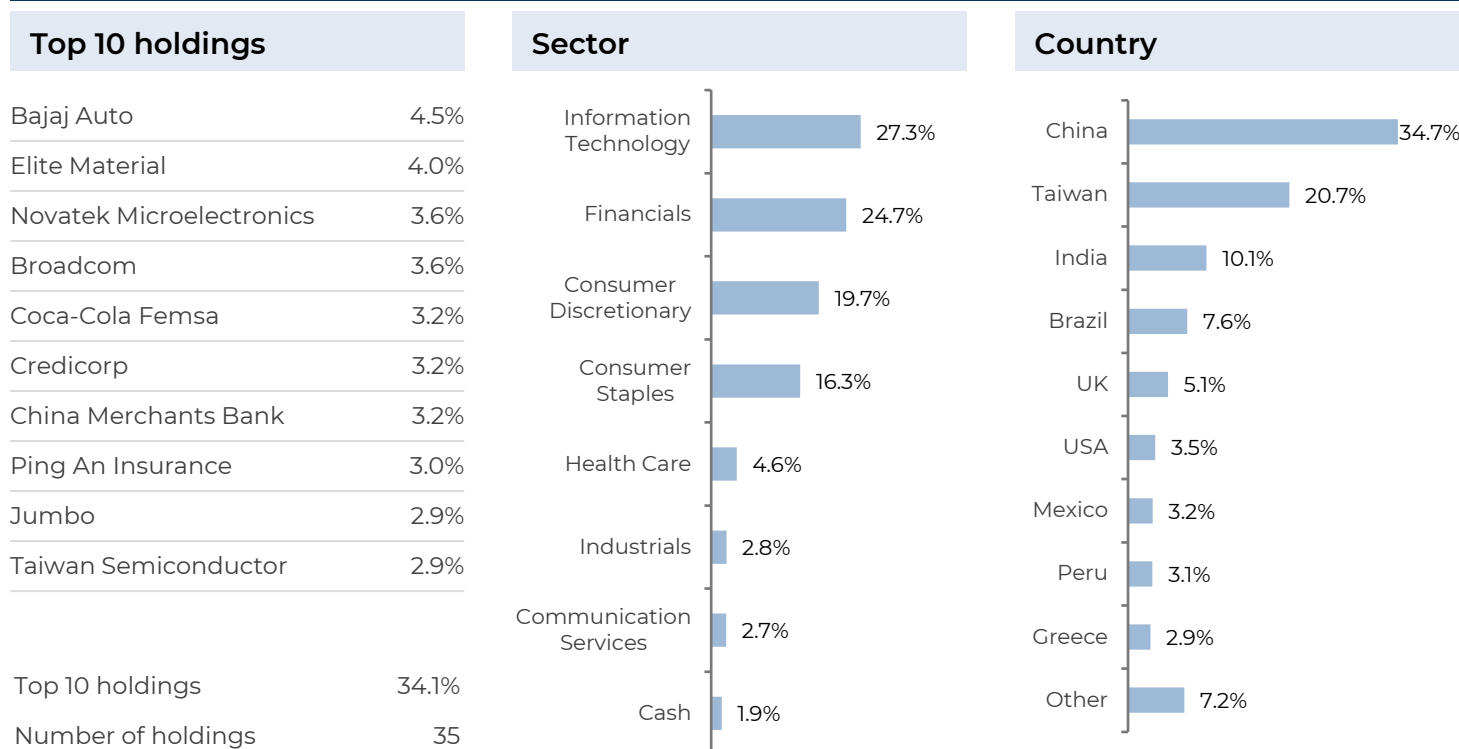
Edmund Harriss  
Mark Hammonds

**GUINNESS EMERGING MARKETS EQUITY INCOME FUND - FUND FACTS**

|                |                          |
|----------------|--------------------------|
| Fund size      | \$7.3m                   |
| Fund launch    | 23.12.2016               |
| OCF            | 0.89%                    |
| Benchmark      | MSCI Emerging Markets TR |
| Historic yield | 4.0% (Y GBP Dist)        |

Historic yield reflects the distributions declared over the past 12 months expressed as a percentage of the mid-market price, as at the latest month end. It does not include any preliminary charges. Investors may be subject to tax on the distribution.

**GUINNESS EMERGING MARKETS EQUITY INCOME FUND - PORTFOLIO**



## Guinness Emerging Markets Equity Income Fund

Past performance does not predict future returns.

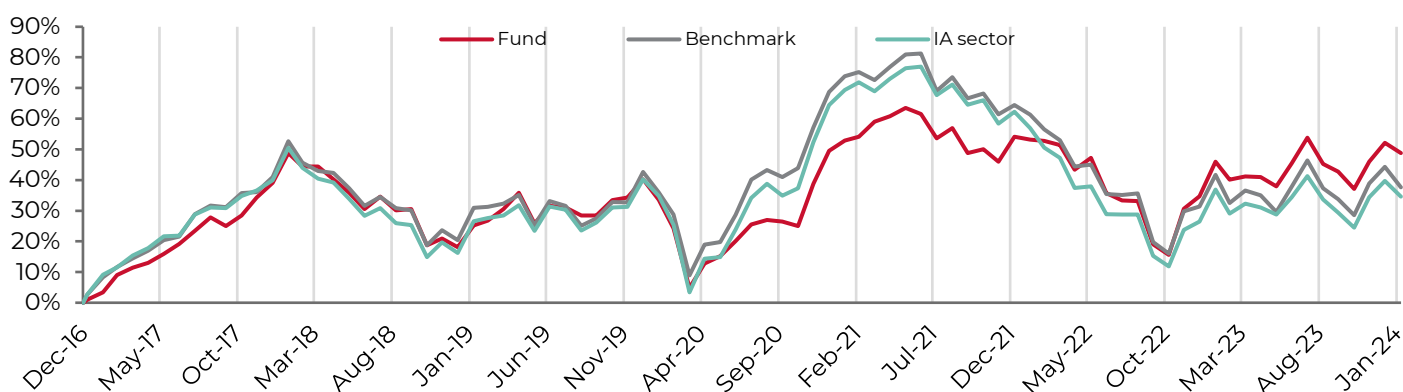
### GUINNESS EMERGING MARKETS EQUITY INCOME FUND - CUMULATIVE PERFORMANCE

| (GBP)                         | 1 Month | YTD   | 1 yr  | 3 yr   | 5 yr   | 10 yr |
|-------------------------------|---------|-------|-------|--------|--------|-------|
| Fund                          | -2.1%   | -2.1% | -1.5% | +5.0%  | +22.8% | -     |
| MSCI Emerging Markets TR      | -4.5%   | -4.5% | -6.2% | -14.7% | +8.5%  | -     |
| IA Global Emerging Markets TR | -3.6%   | -3.6% | -4.9% | -14.3% | +9.9%  | -     |
| (USD)                         | 1 Month | YTD   | 1 yr  | 3 yr   | 5 yr   | 10 yr |
| Fund                          | -2.2%   | -2.2% | +1.9% | -2.6%  | +18.8% | -     |
| MSCI Emerging Markets TR      | -4.6%   | -4.6% | -2.9% | -20.9% | +5.1%  | -     |
| IA Global Emerging Markets TR | -3.7%   | -3.7% | -1.7% | -20.5% | +6.4%  | -     |
| (EUR)                         | 1 Month | YTD   | 1 yr  | 3 yr   | 5 yr   | 10 yr |
| Fund                          | -0.6%   | -0.6% | +1.9% | +8.9%  | +25.5% | -     |
| MSCI Emerging Markets TR      | -3.0%   | -3.0% | -3.0% | -11.5% | +11.0% | -     |
| IA Global Emerging Markets TR | -2.1%   | -2.1% | -1.7% | -11.1% | +12.4% | -     |

### GUINNESS EMERGING MARKETS EQUITY INCOME FUND - ANNUAL PERFORMANCE

| (GBP)                         | 2023   | 2022   | 2021   | 2020   | 2019   | 2018   | 2017   | 2016 | 2015 | 2014 |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|------|------|------|
| Fund                          | +6.6%  | -1.6%  | +4.0%  | +3.4%  | +14.2% | -9.8%  | +25.8% | -    | -    | -    |
| MSCI Emerging Markets TR      | +3.6%  | -10.0% | -1.6%  | +14.7% | +13.9% | -9.3%  | +25.4% | -    | -    | -    |
| IA Global Emerging Markets TR | +4.3%  | -12.2% | -0.5%  | +13.7% | +16.0% | -11.8% | +24.4% | -    | -    | -    |
| (USD)                         | 2023   | 2022   | 2021   | 2020   | 2019   | 2018   | 2017   | 2016 | 2015 | 2014 |
| Fund                          | +12.9% | -12.6% | +3.1%  | +6.7%  | +18.8% | -15.1% | +37.7% | -    | -    | -    |
| MSCI Emerging Markets TR      | +9.8%  | -20.1% | -2.5%  | +18.3% | +18.4% | -14.6% | +37.3% | -    | -    | -    |
| IA Global Emerging Markets TR | +10.5% | -22.0% | -1.4%  | +17.3% | +20.7% | -16.9% | +36.2% | -    | -    | -    |
| (EUR)                         | 2023   | 2022   | 2021   | 2020   | 2019   | 2018   | 2017   | 2016 | 2015 | 2014 |
| Fund                          | +9.1%  | -6.8%  | +10.9% | -2.2%  | +20.9% | -10.8% | +20.9% | -    | -    | -    |
| MSCI Emerging Markets TR      | +6.1%  | -14.9% | +4.9%  | +8.5%  | +20.6% | -10.3% | +20.6% | -    | -    | -    |
| IA Global Emerging Markets TR | +6.8%  | -16.9% | +6.1%  | +7.6%  | +22.9% | -12.8% | +19.7% | -    | -    | -    |

### GUINNESS EMERGING MARKETS EQUITY INCOME FUND - PERFORMANCE SINCE LAUNCH (USD)



Source: FE fundinfo to 31.01.24. 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 current OCF for the share class used for the fund performance returns is 0.89%. Returns for share classes with a different OCF will vary accordingly. Transaction costs also apply and are incurred when a fund buys or sells holdings. The performance returns do not reflect any initial charge; any such charge will also reduce the return.

## 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. OCFs for all share classes are available on [www.guinnessgi.com](http://www.guinnessgi.com).

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.

### 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](http://www.guinnessgi.com) or free of charge from:-

- the Manager: Waystone Management Company (IE) Limited (Waystone IE) 2nd Floor 35 Shelbourne Road, Ballsbridge, Dublin D04 A4E0, Ireland; or,
- the Promoter and Investment Manager: Guinness Asset Management Ltd, 18 Smith Square, London SW1P 3HZ.

Waystone IE is a company incorporated under the laws of Ireland having its registered office at 35 Shelbourne Rd, Ballsbridge, Dublin, D04 A4E0 Ireland, which is authorised by the Central Bank of Ireland, has appointed Guinness Asset Management Ltd as Investment Manager to this fund, and as Manager 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.waystone.com/waystone-policies/>

### 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](http://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