Guinness Emerging Markets Equity Income Fund

INVESTMENT COMMENTARY – May 2018

Launch date	**23.12.16**
Team	**Edmund Harriss** (manager) **Mark Hammonds** (manager) **Sharukh Malik** (analyst)

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.

Performance

30/04/2018

Fund	Guinness Emerging Markets Equity Income (Z)
Index	MSCI Emerging Markets Index
Sector	IA Global Emerging Markets

	2015		**2016**		**2017**	
	USD	GBP	USD	GBP	USD	GBP
Fund	-	-	-	-	38.4	26.4
Index	-14.6	-9.7	11.6	33.1	37.8	25.8
Sector	-15.1	-10.2	9.7	30.8	36.2	24.4

	YTD		**1 year**		**From launch**	
	USD	GBP	USD	GBP	USD	GBP
Fund	4.0	-0.8	30.3	17.2	45.3	27.0
Index	1.5	-0.8	25.4	14.7	43.6	25.5
Sector	0.4	-2.3	21.7	11.0	40.5	22.7

Annualised % total return from launch

	USD	GBP
Fund	29.1%	18.4%
Index	30.3%	19.5%
Sector	27.7%	17.2%

Risk analysis (annualised, weekly, from launch)

	Index		**Sector**		**Fund**	
	USD	GBP	USD	GBP	USD	GBP
Alpha	0.0	0.0	0.6	0.6	5.4	5.4
Beta	1.0	1.0	0.9	0.9	0.8	0.8
Info ratio	0.0	0.0	-0.5	-0.5	0.1	0.1
Max drwdn	-10.2	-10.2	-8.8	-8.8	-7.6	-7.6
Tracking err	0.0	0.0	4.5	4.5	6.3	6.3
Volatility	14.1	14.1	13.0	13.0	12.7	12.7
Sharpe ratio	1.7	1.7	1.6	1.6	1.9	1.9

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: 0.74% OCF, Financial Express, bid to bid, gross total return.

Fund & market

- In April, the Fund fell 1.1% (Z class, GBP) while the MSCI Emerging Markets Index rose 1.4%.

- The three main influences on markets have been rising trade tensions between China and the United States, rising oil prices, and US dollar strength and rising US Treasury yields.

- Markets have responded with stronger performance in traditionally defensive sectors (Consumer Staples, Health Care, Utilities) and a rally in Energy stocks. The previous market leaders, IT and Consumer Discretionary, have been laggards.

- The effect of the stronger dollar has been felt specifically in the weaker, more indebted nations running higher current account (and fiscal) deficits. Brazil, South Africa and Turkey have been among the most vulnerable; Argentina's currency drop followed by short-term interest rates rising to 40% was the most eye-catching.

- The relative weakness of the Fund in the past month follows good performance over the past year and is mostly attributable to our low exposure to Energy, Materials and Industrials and to a higher Chinese exposure.

- Our process leads us away from Energy because of our requirement for stable long-run returns on capital above the cost of capital, which highly cyclical Energy and Materials stocks cannot sustain. We have a higher weight to China because it is there we find structural growth themes and businesses to be among the most undervalued.

Events in April

- US foreign policy positioning has been a significant wildcard: the apparent disconnect between the President and the official line offered by the State department on China, North Korea and Iran has continued to unsettle markets.

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- Domestic politics have had an impact. Election noise in Brazil, Malaysia and Mexico is leaving investors guessing on the direction of government spending, reform, and trade negotiations.

- The yield on the US 10-Year Treasury rose above 3%, which it last reached (very briefly) in December 2013. The last time it was above this level on a sustained basis was for 12 months between mid-2010 and mid-2011.

- Argentina's currency declined sharply, prompting sharp rises in short-term interest rates. Some observers interpreted this as a signal of broader emerging market instability, but we think this is a country-specific case; investors looked at US dollar strength in the context of Argentina's higher levels of US dollar debt and combined this with doubts about the new government's commitment to make Argentina 'a normal economy'. (In our view, Argentina's orthodox response to capital outflows by raising interest rates is a point in Argentina's favour.)

Overview

- We expect earnings growth in emerging markets to be stronger than in developed markets.

- Economic growth remains supportive and if 1Q18 world growth exceeds 3% on an annualised basis, this will make a run of six straight quarters which has been achieved on only two other occasions in the last 30 years.

- We appear to be in latter part of mid-cycle rather than late cycle. We do not believe US monetary policy is about to become restrictive, which would lead to a shift down in US corporate investments and earnings growth.

- With expectations still low for a near-term recession, we think that this period of defensive outperformance is unlikely to be sustained and that structural growth themes will reassert themselves.

- We therefore expect emerging markets will still do well, although perhaps less than the consensus forecast of 18% earnings growth. Our focus however, remains on good quality companies with inherent strengths rather than those that require favourable cyclical conditions. Cash-generative companies with low debt, we believe, are the best place to be at this point.

Outlook

We normally do not spend much time in discussion of top-down emerging markets trends because we believe the value we add is through underlying stock selection. Nevertheless, macro factors are important because although Emerging Markets are not a homogeneous block they play out differently in each country and often differently again at the individual stock level.

Economic Cycle

The recent performance in emerging markets has been affected by a number of factors. Late cycle concerns centre on the outlook for US growth and inflation which are transmitted to emerging markets via higher interest rates, a stronger dollar, capital outflows and a downshift in consumption and investment. Today, with US inflation at 2.5% and the Fed funds rate at 1.75%, real interest rates are still negative and policy is accommodative. Markets have been watching for signs of these approaching dynamics. The stronger dollar against reserve currencies (as measured by the DXY Index) and a rising 10-year Treasury yield, while not enough in themselves to trigger a significant asset allocation shift, have caught the market's attention.

The markets most vulnerable to these concerns are those that are running sizeable deficits relative to their GDP. Argentina, Brazil, South Africa and Turkey have been in the news but there are specific country issues that have run alongside to bring them under pressure. Other countries also running deficits in Latin America are Colombia and Peru. In Asia, India, Indonesia and the Philippines have weaker national finances, but they are not at extremes.

For the moment, EM issues are country-specific, not general. This is because, we believe, the world economy and the US in particular have not reached a late-cycle stage. Investment and earnings growth is still strong; relative growth weakness was evident on the consumer side in the first quarter with sales volume growth perhaps down to an annualised rate of 1% from 5% in the last quarter of 2017. But April indications make it look as though macroeconomic strength has persisted into the second quarter.

Geo-politics

The US stance on foreign affairs and trade relations is determined by President Trump. In the past, there has been a unified position presented by the White House and State Department but today discord between and within each is vividly displayed by contradictory statements being made (almost simultaneously), making it hard to know what is coming next.

At the time of writing, the Chinese and American trade negotiators have, in the words of Treasury Secretary Mnuchin, put 'the trade war on hold'. A few hours after that, Trump said has he is 'not really' happy about the progress made so far. The proposed summit between the US and North Korea has been set for 12th June in Singapore. The US appeared surprised when North Korea said it might pull out if the US sets pre-conditions regarding de-nuclearisation. President Trump has now said the US might pull out if certain conditions (unspecified) are not met. "We'll see what happens." The US has pulled out of the Iran nuclear deal and now promises to impose "the strongest sanctions in history". All of these issues are introducing additional volatility to markets, both developed and emerging.

The biggest issue in our view remains the trade dispute with China. We believe that both sides would like to do a deal and that both sides need to be able to present the outcome as a win. There are hardliners on both sides who are opposed to compromise and thus we expect it to be a bumpy ride. From our investment standpoint, the emphasis has to be on fundamentally strong businesses whose valuations are low enough to compensate for the greater trade uncertainty. The Fund's exposure to trade tensions is primarily in its technology holdings in China and Taiwan which amount to 20% of the portfolio. In other words, 80% is not directly exposed.

Summary view

Our view is that the recent weakness in Emerging Markets and in our Fund is likely to turn back to our favour. The outperformance of defensive names is only sustainable if a cyclical downturn is around the corner, but we believe that economic indicators (Purchasing Managers' Indices, investment, earnings, inflation) all remain supportive. We think a portfolio of quality companies that have achieved persistently high returns on capital over time, that are being undervalued by the market, and which pay an attractive dividend, is an appropriate place to be positioned.

Edmund Harriss
Mark Hammonds (portfolio managers)
Sharukh Malik (analyst)

Data sources

Fund performance: *Financial Express, gross total return*

Index and stock data: *Bloomberg*

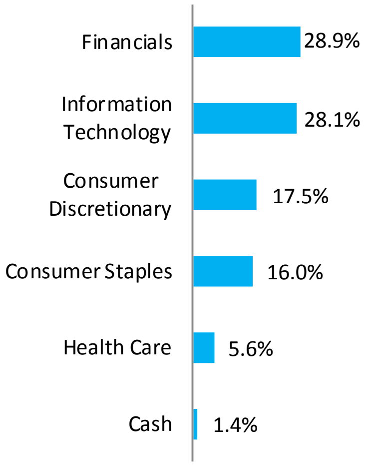
PORTFOLIO

30/04/2018

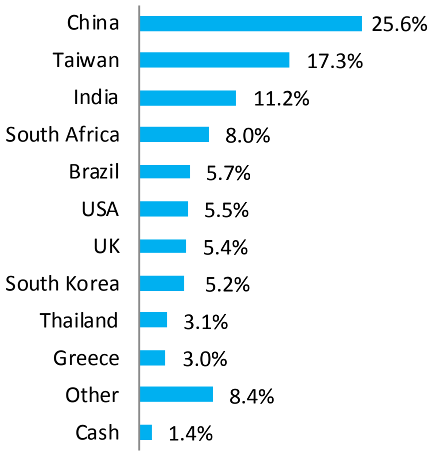
Fund top 10 holdings

Shenzhou International	3.4%
Tisco Financial Foreign	3.1%
China Lilang	3.1%
TATA Consultancy Service	3.1%
Ping An Insurance	3.1%
China Medical System	3.1%
Jumbo	3.0%
China Construction Bank	3.0%
Banco Davivienda	2.9%
Coca-Cola Femsa SAB	2.9%
% of Fund in top 10	30.8%
Total number of stocks	36

Sector analysis



Geographic allocation



PERFORMANCE

30/04/2018

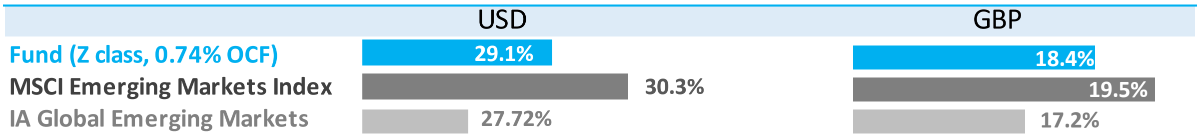
Discrete years % total return

	Apr '14		Apr '15		Apr '16		Apr '17		Apr '18	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Fund (Z class, 0.74% OCF)	-	-	-	-	-	-	-	-	30.3	17.2
MSCI Emerging Markets	-1.1	-9.2	0.8	18.9	-11.7	-13.5	17.7	35.4	25.4	14.7
IA Global Emerging Markets Sector	-2.6	-10.1	0.0	15.1	-12.1	-11.7	17.7	34.1	21.7	11.0

Cumulative % total return

	1 month		Year-to-date		1 year		3 years		From launch	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Fund (Z class, 0.74% OCF)	0.1	-1.1	4.0	-0.8	30.3	17.2	-	-	45.3	27.0
MSCI Emerging Markets	-1.8	1.4	1.5	-0.8	25.4	14.7	30.3	34.3	43.6	25.5
IA Global Emerging Markets Sector	-2.5	0.9	0.4	-2.3	21.7	11.0	25.9	31.5	40.5	22.7

Annualised % total return from launch



Risk analysis - Annualised, weekly, from launch on 23.12.2016

30/04/2018	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
Alpha	0.0	0.0	0.6	0.6	5.4	5.4
Beta	1.0	1.0	0.9	0.9	0.8	0.8
Information ratio	0.0	0.0	-0.5	-0.5	0.1	0.1
Maximum drawdown	-10.2	-10.2	-8.8	-8.8	-7.6	-7.6
R squared	1.0	1.0	0.9	0.9	0.8	0.8
Sharpe ratio	1.7	1.7	1.6	1.6	1.9	1.9
Tracking error	0.0	0.0	4.5	4.5	6.3	6.3
Volatility	14.1	14.1	13.0	13.0	12.7	12.7

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, gross total return (0.74% 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 from the website www.guinnessfunds.com , or free of charge from:-

- the Manager Link Fund Manager Solutions (Ireland) Ltd, 2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland; or,
- the Promoter and Investment Manager: Guinness Asset Management Ltd, 14 Queen Anne's Gate, London SW1H 9AA.

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

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.